NATIONALIZATION OF BANKS IN INDIA

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NATIONALIZATION OF BANKS IN INDIA

A Detailed Analysis of Schemes & Proposals

TOGETHER WITH

Brief on the

Banking Systems of other Countries

BY
J. C. VERMA

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PREFACE

Since the nationalization of 14 major commercial banks, first by an Ordinance on July 19, 1969, and later by an Act passed by the Parliament on August 9, 1969, the question of bank nationalization in India has become a controversial question. Supreme Court's judgement of Feb. 10, 1970, declaring the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, as unconstitutional, added a new turn to this controversy, compelling the Government to issue a fresh Ordinance on Feb. 15, 1970 to revalidate the Nationalization Act. The controversy is presently at its climax, with the Parliament grappling with different constitutional and other issues.

This book attempts to evaluate different schemes and proposals put forward by the Government and other financial bodies to make the nationalised banks a vehicle of efficient financial service to the nation by their meeting adequately the requirments of the priority sectors of the economy. The issue of nationalization has been dealt with primarily from the economic angle, although due reference to political implications has been made side by side.

The book is expected to serve the purpose of the students, research scholars, planners, general readers and the bankers who seek answers to their respective problems.

To make the book useful, a special chapter on "Banking Systems in Other Countries" has been added to inform the readers about the manner in which the banking industry in different countries has evolved to fulfil its objectives. A serious study of this chapter will be helpful for comparing

the evaluation of new Indian proposals in the light of the achievements of different banking measures adopted by other countries.

Whatever the picture of the banking system that finally emerges in India, the analyses and suggestions presented in this book are intended to be of lasting interest, and we hope, will prove interesting.

J. C. VERMA

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INTRODUCTION

The nationalisation of 14 major commercial banks was announced by the Government of India through an Ordinance promulgated by the President under Art. 123 of the Constitution on July 19, 1969. The Ordinance was replaced by the Banking Companies (Acquisition and Transfer of Undertakings) Act passed by the Parliament on August 9, 1969.

The validity of the Ordinance and the Act was challenged through a petition in the Supreme Court on the following principal grounds :

(*i*) The Ordinance promulgated under Art 123 of the Constitution was invalid because the conditions precedent to the exercise of the power did not exist ;

(*ii*) In enacting the Act Parliament encroached upon the State list in the Seventh Schedule of the Constitution ; and to that extent the Act is outside the legislative competence of the Parliament ;

(*iii*) By enactment of the Act, fundamental rights of the petitioner guaranteed by the Constitution under Art. 14, 19 (*i*) (*f*) and (g) and 31 (2) are impaired ;

(*iv*) That by the Act the guarantee of freedom of trade under Art. 301 is violated ; and, that in any event, retrospective operation given to Act 22 of 1969 is ineffective, since there was no valid Ordinance in existence. The provision in the Act, retrospectively validating infringement of the fundamental rights of citizens, was not within the competence of Parliament. The sub-sections (1) and (2) of section 11 and section 26 are invalid.

The Supreme Court, after hearing the arguments of the Petitioner as well as the Government of India, passed a majority judgement of 10-1 on February 10, 1970. The judgement declared the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969 under which the 14 major commercial banks in the country had been nationalised to be void and unconstitutional. Thus the nationalised banks were denationalised as soon as the judgement of the Supreme Court was announced.

The Court held that the impugned Act was discriminatory and that the action taken or deemed to be taken in exercise of the power under the Act was unauthorised. Sections 4, 5, and 6 and

Schedule II of the Act were held to be bad and since they were not severable from the Act, the Act in its entirety was declared void. Sections 4, 5, and 6, and Schedule II provide for the statutory transfer and vesting of the undertakings of the named banks in the corresponding new banks and prescribe the method of determination of compensation for expropriation of the undertakings. These provisions impair the fundamental guarantee under Art. 31 (2).

The judgement, upheld the legislative competence of the Parliament but pointed out the illegality of 'hostile discrimination' caused by the enactment against the named banks by prohibiting them from carrying on banking business whereas other banks—Indian or foreign—were permitted to carry on banking business and even new banks were allowed to be formed which may engage in banking business. The Act further restricted the named banks from carrying on business other than banking as defined in Section 5 (b) of Banking Regulations Act, 1949. It violated the guarantee of compensation under Art. 31 (2) in that it provided for giving certain amounts determined according to principles which were not relevant in the determination of compensation of the undertakings of the named banks and by the method prescribed the amounts so declared could not be regarded as compensation.

However, the minority judgement upheld the validity of the Act and also the acquisition and/or requisition of property for public purposes by the State for the 14 banks as acquired for the purpose of developing the national economy, to confer benefits on weaker sections and sectors of the society and to use deposits in wider public interest. The judgement upheld validity of acquisition under Art. 31 (2) of the Constitution and declared that no infringement was done to Art. 31 (2) because there was no just compensation, as quantum of compensation fixed by the legislature was not liable to be challenged before the court on the ground that it was not a just equivalent of the principles specified for determination of compensation which also was not open to challenge.

Although a serious public controversy emerged from the verdict of the Supreme Court, creating forum-discussions to support or reject the nationalization measure, the government took an expeditious decision in the matter so that the tempo of economic and social objectives and inspirations set in motion may not be suppressed and the new course of activities, adopted by the nationalised banks *i.e.*, to channelise the banking resources for economic and social development of the country by meeting the requirements of the various needy sections and priority sectors under the government directives, may not be obstructed and be smoothly pursued.

The renationalization of the banks concerned was announced by the Government on February 15, 1970 by an Ordinance issued by the President. The renationalization was done with retrospective effect from July 19, 1969 when these banks were originally taken over by the government. The new Ordinance sought to meet the two main objections *viz*. 'hostile discrimination' and 'illusory compensation' raised by the Supreme Court and also made certain changes in the text of the Act 22 of 1969. These changes may be seen in a separate Appendix at the end of this book.

An Appraisal of the New Ordinance.

The new Ordinance was substantially different from the earlier one promulgated on July 19, 1969 as well as from the Banking Companies (Acquisition and Transfer of Undertakings) Act of 1969. The new Ordinance omitted Section 15 (2E) in the Act to overcome the charge of discrimination against the shareholders which forebade them from doing banking business. This amendment left the shareholders free to engage themselves in banking and other business (even non-banking) subject to the limits prescribed in the Memorandum and Articles of Association of their concerned undertakings.

Further, the compensation scheme provided in the Act was scrapped and replaced by a new one. Instead of principles of computation of compensation prescribed in the impugned Act, the new Ordinance specified the amount of compensation to each of the 14 banks without, however, mentioning the basis on which the figure was arrived at. The total new compensation amounted to Rs. 87.40 crores—Rs. 12.40 crores more than what was envisaged in the Act. Under the scheme the compensation payable is Rs. 17.50 crores to the shareholders of Central Bank of India (3·$\frac{2}{3}$ times the paid-up capital) ; Rs. 14.70 cr. to the Bank of India (3·$\frac{2}{3}$ times the paid-up capital) ; Rs. 10.20 cr. to the Punjab National Bank (5 times) ; Rs. 8.40 cr. to the Bank of Baroda ($3\frac{1}{4}$ times) ; Rs. 8.30 cr. to the United Commercial Bank (3 times) ; Rs. 4.20 cr. to the United Bank of India ($1\frac{1}{2}$ times) ; Rs. 3.60 cr. each to the Canara Bank ($2\frac{1}{2}$ times) ; The Dena Bank (3 times) ; and the Syndicate Bank ($3\frac{1}{4}$ times) ; Rs. 3.10 cr. each to the Union Bank of India ($2\frac{1}{2}$ times) ; and the Allahabad Bank ($3\frac{1}{4}$ times) ; Rs. 2.50 cr. to the Indian Overseas Bank ($2\frac{1}{2}$ times) ; and Rs. 2.30 cr. each to Indian Bank ($2\frac{1}{2}$ times) ; and the Bank of Maharashtra ($1\frac{1}{2}$ times).

The following table gives an idea of the quantum of compensation compared to the paid-up, market and break-up values of the shares of the 14 nationalized banks :—

	Amount of compensation (in crores of rupees)	*Paid-up capital (in crores of rupees)*	*Paid-up value per share*	*Market price as on July 18, 1969*	*Break up value of the share*	*Compensation per share*
Central Bank	17.50	4.79	25.00	51.30	62.58	92.11
Bank of India	14.70	4.05	50.00	98.50	129.63	181.48
Punjab National	10.20	2.00	10.00	23.50	34.15	51.00
Bank of Baroda	8.40	2.50	50.00	93.50	113.20	168.00
United Commercial	8.30	2.80	50.00	69.00	124.29	148.21
Canara Bank	3.60	1.50	50.00	68.13	113.33	128.15
United Bank of India	4.20	2.69	10.00	8.55	14.98	15.61
Dena Bank	3.60	1.25	50.00	62.00	117.60	144.00
Union Bank of India	3.10	1.25	5.00	6.56	9.84	12.40
Allahabad Bank	3.10	1.05	100.00	260.00	265.56	327.78
Indian Bank	2.30	0.89	100.00	125.00	228.89	255.56
Bank of Maharashtra	2.30	1.48	50.00	53.00	67.67	76.67
Indian Overseas	2.50	1.00	100.00	117.50	215.00	250.00
Syndicate Bank	3.60	1.29	A100.00	143.80	233.00	325.17
			B 100.00	19.85	23.30	32.53
			B (1) 7.50	15.75	11.44	15.97
			C 1.00	1.09	2.33	3.25

Source : The Hindustan Times dated 18.2.1970.

The compensation to the banks is payable in cash or Central Government securities according to the option to be exercised by the recipient undertakings. In the case of option for cash payment the amount will be paid in three annual instalments, each instalment carrying interest at 4% per annum from July 19, 1969. In case the option is for compensation in the shape of securities, the company can choose either a ten-year security carrying interest at 4.5% p.a., or a 30-year security with interest at 5.5% p.a., in either case from July 19, 1969. The option can be exercised for payment partly in cash and partly in securties in such proportions as the recipient may wish. The option is to be exercised within three years and this date can be further extended by the government in case of any company. In case the company fails to exercise the option, ten-year security with 4.5% interest shall be paid to it and the amount will be payable within 60 days of the date by which such option is to be deemed. Compensation can also be paid as interim upto 75% of the paid up capital if any company so desired, according to its option, in cash, in securities or in both. Interim compensation is also payable within 60 days of the receipt of the option.

The Ordinance did not contain any provision for a tribunal as was envisaged in the Act for the reason that the compensation was to be paid as fixed by the Government instead of laying down principles for computation of compensation. Similarly, the provision in the Act for the setting up of advisory boards was deleted in the Ordinance.

As regards the management of the renationalised banks, the Ordinance provided for the Board of Directors being constituted by the Central Government in consultation with the Reserve Bank of India, for managing each renationalised bank and so long as it was not done, these banks were to remain under the control of the reappointed custodians. The Board of Directors of the nationalized banks are to include representatives also of depositors, employees, farmers, workers and artisans.

An Assessment of the New Ordinance :

The new Ordinance was welcomed by the people as it did away with the infirmities that led to the Supreme Court to strike down the original enactment The Government, through the new Ordinance; honoured the Supreme Court verdict in regard to payment of compensation. The Government also removed the prohibition imposed on the 14 banks under the impugned Act's section 15 (2) (*e*) restraining them from carrying on banking business. As a result of this, the distinction between banking and non-banking business was removed. The renationalised banks could now retain their names and carry on their banking business as also any other business permitted in their Articles of Association. In this way 'freedom of trade, commerce and intercourse' guaranteed under Art. 301 of the Constitution was restored to these banks. Further, the objections raised under Art. 19 (1) (*g*) of the Constitution guaranteeing the right to 'practice any profession or to carry on any occupation, trade or business' was sought to be removed by providing for cash compensation in the absence of which the undertakings were prevented to carry on business. Further, the new Ordinance removed the fears in India and abroad about the prospects of nationalization of all the banks in India including the foreign banks.

It was anticipated the owners or shareholders of the renationalized banks would challenge again the Ordinance, or the new enactment, in the Supreme Court as, according to their counsels, the measure was not free from lacunae and retained the arbitrary character of the Govt action in arriving at the quantum of compensasion. According to some lawyers, the new measure was even more flagrantly retrospective. It is stated that the compensation offered by the Government did not reflect the correct value of the undertakings as long as the 'components of value' *viz*. goodwill and unexpired leasehold rights are not clearly laid down. However, this objection does not seem tenable as the new

compensation scheme of the Government was more liberal and authorities claimed to have taken into account various factors such as the assets, liabilities, profitability and goodwill in fixing the compensation. The above legal issues are therefore not likely to block the future course of action to be taken by the Government to run the renationalized banks in the better interests of the common people, rapid growth of the economy and towards attaining a higher standard of operational efficiency.

Accelerating follow-up measures ;

The benefits of bank nationalization can only be reaped if the follow-up measures to achieve the planned objectives are expedited and banks are organised, without further loss of time, to pursue their new role in the economy of the country. The progress made so far is only nominal. Unless steps are taken soon at good speed by each individual banking undertaking to meet the challenge of the backward economy of the nation, particularly in the rural region, new hopes created in the country, in villages and towns, among the small industrialists and farmers, the petty artisans and the unemployed engineers, and the like, would not be materialized. The consequences of the failure of the new measures would be highly suicidal and may cripple the economy beyond repair.

It is, however, heartening to note that considerable benefit has accrued to the people since banks were nationalised in July 1969, though the issue was subjudice. Of the 511 new branches opened since nationalisation, 221 belonged to the rural areas. The deposits of these banks went up from Rs. 3,874 crores in July 1969, to Rs. 4,047 crores as on Dec. 26, 1969.

In the agricultural sector alone, the number of accounts increased from 1,71,881 to 3,66,998 during this period. Advances increased from Rs. 39 crores to Rs. 92 crores.

Let us hope the tempo would be maintained and the enthusiasm of the banking community as well as of the various beneficiaries of the financial credit, would be fully tapped by the Government for more production, accelerated economic activity and creation of fuller employment opportunities.

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CHAPTER I

JUSTIFICATION OF NATIONALIZATION

The fourteen major commercial banks with a deposit of Rs. 50 crores or above eachwere nationalized by the Government of India under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969. The Act replaced the Ordinance of July, 19, 1969. This step of the government was based on the demand for nationalization of the banking industry which had persisted in the country since independence. In this direction, a beginning was madein 1955 with the nationalization of the Imperial Bank of India by converting it into the State Bank of India. The public sector now covers 84% of the banking business as against 27%.

At the end of December, 1967 the total deposits and bank credits of the 14 nationalised banks were Rs. 2312 and Rs 1583 crores, State Bank of India Rs. 859 crore, and Rs. 597 crore; State Bank subsidiaries Rs. 248 crore and Rs. 151 crore Foreign Banks Rs. 402 crore and Rs. 336 crore other Indian Scheduled Banks Rs. 264 crore and Rs. 162 crores respectively. The number of offices of the nationalised banks was 3,362, State Bank of India 1,466, State Bank subsidiaries: 757, Foreign Banks 109 and other Indian Scheduled Banks 1,103. The position of deposits and bank advances in respect of the nationalized banks as at the end of 1968 was as under:

TABLE : I

	Deposits	*Advances*	*Owned funds*
			(Rs in Crore)
Central Bank of India	433·27	296·27	11·88
Bank of India	394·97	253·05	10·49
Punjab National Bank	355·96	209·40	6·83
Bank of Baroda	313·80	196·14	5·66
United Commercial Bank	240·58	144·00	6·97
Canara Bank	146·44	96 72	3·21
United Bank	143·69	96·61	4·05
Dena Bank	121·88	74·08	2·93
Union Bank	115·22	68·63	2·56
Allahabad Bank	112·72	69·93	2·54
Syndicate Bank	112·19	70·61	2·66
Indian Overseas Bank	93·22	58·32	2·15
Indian Bank	84·59	57 16	2·06
Bank of Maharashtra	73·07	49·74	2·02

In this connection it may be observed that all the nationalized banks now cover 84% of the total deposits and 82.8% of the total bank credits of all the scheduled banks including of all Indian and foreign banks in India. The 14 nationalized banks cover 62.8% of the total deposits and 63.5% of the bank credits of the total nationa lized banks including the State Bank of India and its subsidiaries. The estimated position in respect of the bank deposits as on July 18, 1969 was as under : (Rs. in Crore)

14 Banks	3,051	
S B 1	1,177	
Subsidiaries	322	
		4,550
Net deposits of all Scheduled & Commercial. Banks (excluding Foreign and Co-operative banks)		4,655

The above figures show that only very meagre banking business is now being handled by the commerical banks left under the private sector. These are small banks with limited operations in specific regions catering small borrowers, the small businessmen and the small industrialists. The total deposits of these banks come to nearly Rs 95 crores as in July, 1969 which sum is very small as compared even with the deposits of the Post Office Savings Banks which had 1½ crores deposits at the end of 1967 and accounted for over Rs 700 crores.

Objectives of Nationalization

The main objectives sought to be achieved through the nationalization of banks have been stated to include the enlargement of resources for economic growth, the development of agriculture and industry in backward regions as well as making bank credit available to priority areas which had hitherto been neglected. To achieve these objectives banks' policies of lending the funds shall be governed by the government instead of by few monopolist shareholders who in the past diverted bank resources to their self-desired channels ignoring the needs of the country's economic planning. In this way the use of bank money for purposes of speculative activities and unproductive works shall be eliminated. The bank resources shall be utilised for encouraging new entrepreneurs. It is also proposed to secure professional standards in bank management and provide adequate training facilities for banking personnel by assuring reasonable terms of employment for the banking industry's staff.

Most of the current criticism against bank nationalization is based on the argument that the government could have achieved their objectives through social control of banks introduced in February 1969. The Government has taken a "hasty step" prompted by "political motives" and stemming from "internal dissension" in the Ruling Party without observing the results of social control measures recently given effect to. The critics go further to add that the government has "flouted the basic principles" of democracy and is taking away freedom from the people by its 'dictatorial steps'. The opposition apprehends the banking industry to be rendered ineffective and lost to the benefit of citizens in the inefficient bureaucratic administration of the public sector. The above criticism has been countered by those who are nationalization-concious. The issue has thus become controversial on political count but can, however, be analysed by economic reasoning to find out whetherthere existed any economic justification that compelled the government to take this step, over-riding its social control measures.

Objectives of Social Control Over Banks

The main objective of social control over banks was to make banking industry more purposeful,more dynamic,more helpful to the common man and to ensure flow of banking resources in accordance with the objectives of planned economic growth by making the management of banks broad-based and progressive and reducing concentration of economic power. It defined higher priorities for agriculture, export and small industries. To achieve these goals, the social control measures consisted of establishing National Credit Council for making decisions for directing utilization of banking resources into desired channels, effective control on banks by the Reserve Bank of India, conferment of powers on the government to acquire banking industry ; setting up commission to examine methods which have bearing on the development of banking industry on right lines, arrangements to gear up the training of senior and middle level bank executives and to improve technical expertise.

A Comparison

A close study of the objectives of nationalization of the 14 major Commercial Banks and that of the social control over banks shows that their objectives as compared to each other were common by inheritance, over-lapping and inter-related. The government could have achieved these objectives, no doubt, from an effective social control as announced by it, but the weaknesses of the social control system were felt in many respects

viz. persons controlling the policies of banks continued to exercise their influence over the banks in one way or the other, while the quick channelizing of the funds into the desired avenues of priority areas was not assured, and the progress made by the banks in following the programmes and policy directions under the social control scheme was found to be too slow.

Economic Justification Arguments for Nationalisation—

The Government felt that the social control scheme will not be effective without nationalization of the major commercial banks for the reasons mentioned below which also suggest economic justification for nationalization.

Firstly, the commercial banks always favoured their lending for industry, trade and commerce in which their directors were interested. The requirements of the fa ı and the small scale industry were always neglected. ıe distribution of bank credit to these two sectors shows that onl ı negligible share of the banks total advances was made available de ite the fact that the Govt. had always emphasized priority for thes ectors. The following tables, II and III, show the percentages of t : shares in the distribution of bank credit made available by commercial banks to agriculture and small scale industry.

TABLE II

Share of Farm Sector in Bank credit.

Year		Percentage Share to Agriculture
March	1956	2.0
April	1961	3.1
March	1966	2.4
March	1967	2.1

TABLE III

Advances to Small Scale Industries as Percentage of Total Industrial Advances & Total Bank Credit

Year		Percentage Share to Small Scale Industries
Dec.	1960	5.1
,,	1961	5.0
,,	1962	4.4
March	1965	5.9
,,	1966	6.2
,,	1967	10.2

From the Tables II & III above, it would be observed that the share, in percentage, of bank credit to Agriculture and Small Scale Industry had not shown big fluctuations excepting for Small Scale Industry in the year 1967 which was solely accountable for the State Bank of India's unusual participation.

If we study purpose-wise distribution of Advances of Scheduled Banks during the First, Second and Third Five Year Plans, we find that the share accountable to agriculture vis-a-vis the importance attached to it was amongst the lowest during First and Second Plans and declined during the Third Plan as may be observed from the following :

TABLE IV

Purpose-wise distribution of Advances of Commercial Banks

Sector	*First Plan*	*Second Plan*		*Third Plan*	
	Average amount per annum (crores of Rs.)	Average amount p.a. (crores of Rs.)	Average percentage increase over Ist Plan amount	Average amount p.a. (crores of Rs.)	Average percentage increase over IInd plan amount
1. Industry :					
Cotton Textile	64.5	132.1	105	238.6	80
Jute Textile	19.2	25.9	29	61.0	135
Iron & Steel	6.2	22.8	267	44.2	94
Engineering	19.5	80.1	318	253.8	219
Sugar & Gur	38.5	69.1	79	96.6	40
Chemicals	9.2	22.1	140	61.3	177
Cement	1.9	13.0	584	23.7	82
Paper & Paper Products	—	7.8	—	28.3	263
Plantation	—	10.1	—	47.5	370
Public Utilities	5.7	13.8	142	38.8	181
Total (including others not mentioned)	231.5	504.5	118	1205.7	139

2. **Commerce :**

(i) Wholesale Trade :					
a) Agricultural commodities	109.2	135.2	23	184.2	36
b) Non-Agricultural	99.3	177.9	79	236.4	32
(ii) Retail Trade :	13.2	15.5	17	25.4	63
Total (including others not mentioned)	253.7	362.2	43	508.1	40
3. Financial	62.6	70.1	12	88.8	26
4. Agricultural	14.5	18.3	26	5.3 (—)	29
5. Personal and Professional	47.5	78.8	61	47.2	52

Source : The above results have been arrived at by working on the data in Table IX-50 page 169-170 Statistical Outlines of Indian Economy (Edn 1968) compiled by Shri V. G. Kulkarni of Financial Express—Vora & Co., Publishers Pvt. Ltd., Bombay.

Secondly, the commercial banks had failed to avail of the facilities of refinance from the Agricultural Refinance Corporation established in 1963 for the purpose of enabling the commercial banks and cooperatives to grant agricultural finance liberally to farmers as may be seen from the following Table V. It shows how the major resources of the corporation remained unutilised.

TABLE V

Year	*Total outlay* (Rs. in crores)	*Total Disbursements* (Rs. in crores)
1963-64	2.23	—
64-65	11.65	0.45
65-66	16.03	4.45
66-67	9.50	2 08
67-68	68.16	7.65
	107.57	12.65

Source : Annual Report of ARC

Thirdly, it was exactly to divert the commercial bank's credits for financing the farmers in the absence of adequate farm-finance from cooperatives, that the Government had initiated social control

measures. Whereas the commercial banks, complied with the formalities of reconstituting their boards in the desired manner, they reduced the size of book - loans from 10.1% to 3.1% in 1968. They sanctioned additional credit limits to Agriculture and Small Scale Industries and introduced new schemes to assist farmers and small entrepreneurs, but failed to create incentives and initiative among farmers in the villages. In the absence of considerable branch expansion in rural areas for educating the rural folk to develop banking habits, their savings could not be mobilised towards deposits. Nevertheless the banks tried to explain away their neglect of the village side by doling out reasons of mass illiteracy, lack of protection arrangements, unsuitable locations, inadequate and practically nil transportation and communications, unwillingness of staff to go to rural areas, non-banking habits of the villagers and farmers, etc. Social control could not compel the commercial banks to embark upon the risk and entail heavy costs of operation due to unprofitability and uncertainty of farming projects and their unwillingness to follow the service motive rather than the profit motive.

Fourthly, the government felt a resource gap in meeting the requirements of very much larger finance for agriculture—estimated at about Rs. 2,000-2,300 crores. Cooperatives, even where they attempted to expand, strengthen and improve, could not havec overed even 40% of farmers' requirements by March, 1974. Therefore, it was necessary that additional agencies should enter this field so as to provide adequate, timely and cheap institutional finance for agriculture. For this purpose the government contemplated Agricultural Credit Corporations in under-developed states and also advised the Commercial Banks to enter in the field of production finance to farmers. The nationalisation of 14 banks was expected to put deposits and other accounts worth Rs. 2,742 crores at the disposal of the government. The Government could by controlling about 80% of the deposits of the schelduled banks together with their 6000 branches including those of the State Bank and its subsidiaries at its disposal could give effect to the economic policies in regard to agricultural development.

Fifthly, the Commercial Banks have recently started long-term finance to industries which was to prove detrimental to the activities of the specialised institutions catering to long-term industrial finance, viz, IFCI, IDBI, ICICI, SFCS, LIC and UTI. Such activities of the Commercial Banks shall now be better checked and controlled by the government for which; too, acute necessity was felt.

Sixthly, serious regional imbalances and banking disparities had come to stay. These factors tended to keep some of the states comparatively backward.

These factors have instigated the government to expand banking facilities in the states which are under-developed and under-banked. So far the banking facilities were confined to urban areas, at the cost of rural and semi-rural areas. The following table VI shows how industrially backward states are lacking banking facilities comparatively. These states were : Assam, Bihar, Rajasthan, Madhya Pradesh, Uttar Pradesh, Orissa, Haryana and Punjab.

TABLE VI

State-Wise Disparities in Banking Facilities

[Figures pertain to the year 1967]

States	*Banking Offices*		*Deposits Mobilised*		*Distribution of Banks*	
	% to total	*rank*	*% to total*	*rank*	*% to total*	*rank*
1	2	3	4	5	6	7
Assam	1.0	17	1.0	15	0.3	17
Bihar	3.6	12	3.5	9	1.4	12
Haryana	1.8	14	1.1	14	0.8	15
J. & K.	0.3	18	0.7	16	0.1	18
Kerala	6.0	8	3.0	10	2.6	9
Madhya Pradesh	4.3	9	2.5	11	2.2	10
Andhra Pradesh	7.2	6	3.5	9	3.5	8
Tamil Nadu	14.0	1	6.2	6	10.2	3
Gujarat	8.9	5	8.3	4	6.0	4
Mysore	9.3	3	4.9	7	4.7	6
Orissa	1.3	16	0.6	17	0.4	16
Punjab	3.9	11	4.2	8	1.7	11
Rajasthan	4.3	10	1.8	13	1.1	14
U. P.	9.2	4	7.9	5	4.1	7
West Bengal	6.2	7	14.5	2	22.5	2
Delhi	3.6	13	9.3	3	4.8	5
Others	1.7	15	2.3	12	1.2	13

Source : Compiled from Tables Relating to Banks in India for 1967 issued by the Reserve Bank of India.

It appears from the above table that there exists wide disparity in the numbers of banking offices, deposit mobilization amounts and distribution of bank credit in different States as per '*rank*' given in

Col. 3,5 and 7. It can also be seen from the above table that the banks followed the usual practice of mobilising deposits in one state and distribute it in the shape of advances in other states i.e. U.P. ranked 5, Punjab 8 for deposit mobilization whereas they ranked 7 and 11 respectively for bank credit. Similarly, Tamil Nadu ranked 6, Mysore 7 for deposit mobilization whereas they ranked 3 and 6 respectively for bank credits. Besides, it is noted that the big 50 cities in India account for 31.1% of the branches of commercial banks, for 68.1% of the total deposits and for 62% of the total advances. Banks open their branches in semi-urban areas to reap deposits and to transfer them into advances to urban centres viz. in Bombay Delhi, Calcutta as these are big metropolitan cities and their total advances exceed the total deposits. In Bombay total deposits mobilized by banks were Rs. 784.44 crores and advances made were Rs 801.72 crores. In Calcutta these figures stood at Rs 467.46 crores and Rs. 601.95 crores respectively.

The above data confirm that banks have not promoted or cultivated nett business. They have just served vested interests or the industrialists. The regional disparity in banking facilities leads to regional inbalances causing backwardness and under-development in some of the States.

Under the above circumstances, the Government came to the conclusion that public ownership of major banks will help in effective mobilization and development of national resources and its utilization for productive, economic, plan, priorities and objectives. This establishes economic justifications for nationalization of the major banks with a view to derive financial resources for better utilization and for the more rapid growth of the economy.

Arguments Against

On the other hand, the following set of circumstances and conditions establish that the government made haste in nationalising the banks without searching for an alternative course and thus the national economy could be affected adversely :

Firstly, the finances available for trade and commerce shall be restricted by nationalisation and not be freely available for these purposes. The banks left out in the non-nationalized private sector, with their meagre resources, shall not be able to meet the requirements of trade and and commerce. Having regard to the importance of trade and commerce in maintaining equilibrium through new forces working for economic growth, nationalization is bound to cause the economy of this country to suffer on this count. This

drawback seems to have been realised by the government. Hence the State Bank of India recently announced to consider programmes for extending financial help in this field.

Secondly, the industrial growth of the nation is likely to be checked as the industries have mainly depended for their working capital requirements on commercial banks and got it in the past expeditiously and conveniently. This requirement of industries is not being met by the long-term financial institutions and the non-nationalized banks shall not be able to cater the needs. The supply of finance for working capital requirements from the nationalized banks is bound to be restricted under the policy framework of the government and even if the nationalized banks are instructed to follow a liberal policy in this respect, delay and inconvenience are bound to be caused in the procedural practices which are inherent in public sector undertakings.

Thirdly, investment climate has not so far been created in villager. The fact that there is little immediate business dampens Banks' plans to launch operations in rural areas. The villages have yet to learn banking habits and to be inclined to respond to the schemes of saving mobilization . Lack of proper infrastructural development in rural areas further causes hindrances in their way and puts agricultural bankinginto a difficult situation.

Fourthly, the availability of increased financial assistance to villagers to purchase agricultural inputs viz. fertilizers, hybrid seeds, modern machinery and equipments, including tractors and irrigational pumping sets pesticides, herbicide and other useful inputs shall generate excess demand for these inputs. In the absence of their adequate supply which is obvious in the present times shall create inflationary conditions in the agrarian economy which shall prove harmful to the society. There exists already a black market in the trades of various agricultural inputs and their ingress of extra credit facilities shall cause a spurt to black market, resulting in loss to farmers and opening new prospects for blackmarketeers.

However, Firstly the government should provide and create conditions for the banks which have not been nationalized to expand their resources to meet the requirements of the industry and commerce and be able to carry on trade on liberal terms to bridge the gap which is liable to be created by nationalization of banks. These banks should be able to compete with the nationalized banks in all their actions and operations and inbibe a spirit of competence and efficiency in both the sectors.

Also to accelerate the pace of agricultural banking the government should start active propoganda in villages to educate

the peasants in banking habits by opening branches in villages; mobile banks should be entrusted with the responsibility of carrying out both the advertising propaganda as well as banking operations in the villages. Wherever it is possible to open branches in rural areas, the staff should be provided with due facilities, viz. residential accommodation, conveyance etc to make them ready to come from the cities to the villages for employment along with their families etc. to enable them to provide education to their children and to feel comfortable by enjoying from time to time the town life. Mere nationalization of banks is not going to bring material achievements. Efforts are required to be made to achieve the capacities on which nationalization of commercial banks will be based and activate the fullest cooperation of the people who are to be benefited or affected by the measure.

CHAPTER II

BANK NATIONALIZATION & ECONOMIC GROWTH

Nationalization of the fourteen major commercial banks does not mean and cannot be concluded to mean that the government has in any way put in gear 'socialism' in the economy of the nation. This step, at the present moment and in the prevailing circumstances, reflects a keen desire on the part of the government to eliminate the economic imbalances growing fast in our economy of which the government has currently become aware. Momentary measures are the tools in the hands of the government to be practised, *inter alia*, through its esteemed agencies like the central bank i.e. the Reserve Bank of India, with a view to correct the growing economic imbalances. These measures can not prove by themseves fruitful for controlling the banking resources and to direct them towards a comprehensive economic development of the country.

The nationalization of these banks has been done with the major objective of attaining the economic development of the urban and rural areas in agricultural and small scale industrial sectors or in other types of self-employed professions for the development of which the credit and finance was not so readily available through the resources of the banks. In several foreign countries with predominantly capitalist economies, viz. in France, Italy and Sweden, nationalization of some of the banks was carried out for achieving certain desired results. In India conditions in both urban and rural areas do not enable the common man to get easy finance to better his mode of earning. Under such conditions the present step of the government has aroused some hope in the masses who represent the middle and poor strata of the society to think and plan a res- pectable mode of earning their livelihood by raising borrowings from the Government banks for agriculture, small industry, retail trade and small commerce. The role of nationalised banks in the comprehensive development of the nation's economy, can be exa- mined, therefore, under different sub-headings, viz. urban economy, rural economy, agricultural sector, small scale industry sector etc. It should be followed by a study of the impact of the diversification of banking resources the large scale industry and on the long term financial institutions catering to this sector.

Urban Economy

Urban economy of India covers 2,699 towns, as per the census of 1961, where the principal occupation of the majority of the population includes non-agricultural vocations, trade and commerce, industry and other liberal professions, viz. medical, legal, practice, teaching and employed and self-employed labour classes, etc. In these towns are scattered 6,816 banking offices (at the end of December 1967) which are particularly located in those areas where the population is more than 20,000. The State Bank of India opened some of its branches even in smaller towns with more or less than 5,000 population but in any sample survey conducted to study the significance of banking offices in urban areas, the total number of such offices will be insignificant. In some of the metropolitan cities the number of banking offices exceeds even 100. Under these circumstances it cannot be concluded that all the urban centres have banking offices, particularly in towns where the population is less than 10,000. Such towns number 1,115 as per census of 1961 inhabited by nearly 1 crore people. This sample calculation gives an idea of paucity of banking facilities even in the urban areas, what to speak of rural ones.

In the urban areas the majority of the population comprises of labour classes—skilled, semi-skilled or raw hands—employed or self-employed, the middle class people reflecting employed educated persons, retail traders, small scale industrialists, craftsmen or artisans. Besides, there are big businessmen, wholesalers, representing commercial enterprises, business houses and industrial concerns. The banking privilege has been confined to this latter class as far as availability of the advances, finances or credit facilities are concerned. In the urban economy, the banking mobilization from poor and middle classes facilitates advances to these richer classes. The bankers are keen on the safety of the depositor's funds and they can get better security only from those who already possess wealth. This trend in Indian banking has created serious imbalances in the urban economy which is now sought to be corrected through the nationalization of banks holding maximum business with a view to enable a small trader, retailer, a self-employed labourer, craftsman or artisan to seek finance from the approved banks at the time of need. The motive which was 'profit' with the banking business seems to have changed into 'service' with the nationalization of banks.

The maximum utilization of the banking resources in urban areas by the poor people, like the miserable employed and the self employed labour or the labour employed in printing presses, hotels,

machine-tool-factories, tailoring houses, barber shops, bakeries etc., shall not be possible till they know how nationalized banks can help them to earn their living in a better manner. Moreover, it will be difficult for most of these workers to apply to the banks for loans as they may not be able to meet even the relaxed security terms for borrowing. By organising themselves in cooperative socities they can however, borrow from banks and acquire their own footing and run their own workshops independently. Formation of credit societies of their own can also help them to solve their problem of getting better return for their labour. But there is no necessary guidance readily available to enable these workers to form cooperative societies. Therefore, there exists imperative urgency to create preconditions in the urban society to enable the people at the lower level to utilise the facilities of the nationalised banking sector for their betterment. These preconditions can he created only through the governmental agencies or by the nationalized banking sector imparting necessary guidance to the needy people to borrow from them for their vocational or business purposes. Thus by raising the economic conditions for the poor or lower middle classes through their own efforts and with the assistance of the banks, the stagnant imbalance in the urban economy can be ended for the benefit of the nation as a whole.

Rural Economy

It is the rural economy that deserves more emphasis from the nationalized banks. The banking facilities are conspicuously absent in rural areas. So far the village economy has been greatly handicapped by limited circulation of money ; village economy still has non-monetary characteristics, viz. barter system is still patronized as a normal routine of economic transactions in the course of day-to-day life. Absence of banking habit in rural areas has rendered the villagers ignorant of banking facilities which can mobilize their domestic savings and save them from paucity of cash and credit. Notwithstanding the fact, the land mortgage banks, cooperative banks and credit societies and the recent move of the State Bank of India through its branches in rural areas have been assisting the farmers by making available credit facilities. But the operation of these combined banking resources are so meagre that in the vast rural economy their contribution is of little significance.

Commercial banks, however, could not enter the village economy to seek serious business opportunities for several reasons, viz. more emphasis was laid in the planned periods upon the cooperative movement as the best agency for the supply of the rural finance. Also, no concrete steps were taken to persuade

vigorously by the commercial banks to shift their operations into the rural economy. This fact is amply evidenced by the preliminary report 1936 and statutory report 1937 of the Reserve Bank of India, All-India Rural Credit Survey Committee Reports 1954 and the papers contemplating the seting up of Agricultural Refinance Corporation. Under these circumstances the rural economy has suffered in isolation of the banking facilities.

The requirements of the rural economy for banking facilities can be broadly grouped in two categories, viz. deposit purposes and borrowing purposes. The green revolution in the fields has enabled the farmer to reap 20% of the national income in the villages which far outgress in the regular display by means of extravagance in jewellery, drinking habits, etc. The village surplus is to be mobilised through deposits. Secondly, the requirements of the intakes for credit are of two types firstly i.e. for financing farming, village industries, artisans, and craftsmen, and secondly, for household purposes, to repay loans taken from indigenous moneylenders on high rates of interest to meet the expenses of the household, social ceremonies and festivals, etc. The requirement for household purposes is as much urgent as the requirement for professional purposes because if this requirement is not met the funds borrowed for professional purposes shall be utilized for household expenditure.

The nationalization of banks has been done with the prime motive to mobilize the rural surplus by way of deposits and to meet the requirements of credit for agriculture porposes and for the development of village and small scale industries in rural areas.

The total assistance to be given by the banking institutions under nationalized sector to the villagers for professional purposes shall be utilised for capital formation both private as well as social. Capital formation in villages essentially includes the traditional implements of farming including the livestock and the traditional tools for craftsmanship or village artisan. The ingress banking resources in villages shall bring a shift in the acquisition of the personal capital formation from traditional to modern implements and tools of farming and of the artisan. This will also change the villagers' attitude towards savings, thrift, accumulation of capital and also towards consumption and production.

For promoting banking habits in villages, the social capital formation in the form of roads, means of public communication,

construction of public buildings hospitals, schools etc. will have to be done gradually. In this way, marked improvement will be attained in this field which has remained so far neglected leaving the village economy closed and vulnerable so that there is sufficient promotion of banking facilities in rural areas and formation of the social capital will also go hand-in-hand.

Agriculture :

The contribution of the commercial banks in the farm sector remains quite insignificant. As per current data available, it is observed that commercial banks have met only 0·4% of the total credit requirements of the rural people, leaving 62% to be met by moneylenders, 15.4% by cooperative institutions and government, 7·3% by traders, 6·4% by relatives and 8·5% by other sources. As against these figures the industrial sector has commanded 64% share in 1967. The percentage share of agricultural credit in total credit advanced by the scheduled banks was 2% in 1956. 3·1% in 1961 and 2·4% in 1966 which declined to 2·1% in 1967, including for plantations.

The modernization of agriculture requires bigger share of capital inputs engaging large capital investment to achieve growth in this sector in both absolute and relative terms. The increased use of capital is associated with the change in the relative proportion of different inputs with the changing pattern of farm organisation and with the increasing degree of specialisation. The capital inputs are either of labour-saving nature or of output increasing nature. Both types of capital have important influences on the effeciency and profitability of farming. Lack of finance for this type of capital investment is one reason for the under developed state of the agricultural sector. The assistance from banks was not available for agricultural modernization. Besides, there remained always absence of developmental agencies which could have rendered them contract costs, on hire purchase bases, certain minimum modernizing facilities to individual farmers. No doubt, a number of developmental programmes under the Community Development Projects and Intensive & Extensive Agricultural Schemes were launched but these did not benefit the small farmer and their use was limited to big and influential landlords.

Under the above circumstances the nationalization of banks has fostered some new hopes in the minds of the Indian farmer for financing his modern capital inputs for accelerating the pace of the 'Green Revolution'.

Experiences of the State Bank of India :

State Bank of India grants advances to farmers directly for all agricultural operations for increased agricultural production right from sowing to harvesting of crops, processing, preservation, storage, transportation and marketing of agricultural produce. Besides, finance is given for other farming activities, viz. animal husbandry, dairy farming, pisci-culture, piggery, poultry farming, horticulture and fruit cultivation. Recently the SBI has also started financing the agro- industries corporations to enable them to purchase tractors, power tillers, pumpsets etc. and extend hire-purchase facilities to farmers for the purchase of machinery and equipment, for storage and distribution of agricultural inputs such as fertilizers, pesticides, seeds etc. Direct commitment to farmers for agricultural activities aggregated Rs. 29.90 crores at the end of June 1969 as per details given below :

TABLE VII

Types of Assistance	*No. of Accts*	(Rs. in crores) *as in June 1969 sanctioned limits*
1. Crop finance for purchase of inputs and meeting other cultivation expenses and developmental loans	26678	15.53
2. Purchase of Agr. machinery & implements	5927	9.81
3. Poultry	157	0.89
4. Fisheries	322	2.20
5. Dairy	126	0.55
6. Grape Vineyards	28	0.17
7. Piggery	9	0.01
8. Horticulture	12	0.03
9. Others	172	0.71
	37031*	29.90

*This excludes a large number of farmers financed by the Bank through its intermediaries.

S.B.I. have also taken up various schemes for the development of farms sector viz. Small Farmers Schemes, Farm Graduate Scheme; Tarai Seeds Project, etc.

Inspite of the above facts, SBI's assistance to farm sector, taking into account its total assistance to all other sectors of the economy, is quite meagre. In a way it has kept the spirit of commercial banking going by disbursing more than two hundred crores of credit to Food Corporation of India for trading purposes, as the Commercial Banks used to do, instead of actually and directly financing the farming sector for acquistion of capital inputs and meeting other requirements of farm projects. At the end of June, 1969 the total volume of assistance aggregated to Rs. 274.00 crores, in terms of limits sanctioned by FCI and Rs. 206.10 crores in outstandings as at the end of June 1969.

Village & Small Scale Industries :

More importance is required to be attached to the development, modernization and rehabilitation of the village and small scale industries to provide full, part-time, seasonal and regular employment to the unemployed, under-employed and fractionally employed village and urban population. The modernization of agriculture, by using labour-saving machanical equipment, shall further render surplus labour in search of employment. It has made it expedient for laying down suitable preconditions for the development of this sector. Assuring adequate provision of banking facilities *inter alia* was the aim of nationalization of major banks.

The government has attached significant importance to the cause of development of the village and small scale industries during the plan periods in its development programmes. This can be achieved by the allocation of expenditure made during the four plans as shown in table VIII :

TABLE VIII

Expenditure on village & small scale industries

Plan (1)	*Original amount* (2)	*Revised amount* (3)	*% increase over the earlier Plan*	*5 Yearly average of col 3*	*% increase on annual average*
First plan	31.20	43.00	—	8.06	—
Second Plan	200.00	180.00	419%	36.00	443%
Third Plan	264.00	240.76	133%	48.15	133%
Annual Plans (1966-69)	144.13	144.13	—	—	—
Fourth Plan (revised)	294.71	294.71	122%	58.94	122%

It is evident from the above table that the village and small scale industries have been allocated consecutively increased funds during the plan periods as this sub sector of the nation's economy plays a vitol role by engaging two crores of persons which is four times more than the employment given by the large scale industrial sector. Taking this fact in view, it should have been wiser for the government to allocate more funds to this sub sector than to the large scale industrial sector. There exists a vast disparity in the fund-allocation and outlays among the small scale or large scale industrial sectors. In the fourth five year plan this disparity exists in states as the small sector gets only 3.3% of the total outlays as against the 21.5% for industries or minerals. Following this trend in the pattern of industrial outlays-allocation it is apprehended that serious imbalances in the economy in the shape of concentration and regionalization of industries might grow. To avoid this situation and to promote rapid development of small industrial sector, the nationalization of the commercial banks was done to make finance readily available to small scale industrial sector.

So far the banking assistance to small scale industry was scarcely available, as may be seen from the following table IX.

TABLE IX

Details of the Advances to Small Scale Industries from banking resources.

Rs. in crores

Outstandings at the end of	*Advance to S.S.I.*	*Advance to all Indents*	*Total Bank Credit*	*Col. 2 as percentage of Col. 3*	*Col. 2 as % of Col. 4*
1	2	3	4	5	6
Dec. 1960	27.54	538.58	1100.04	5.1	2.5
„ 1961	32.08	640.99	1227.70	5.0	2.5
„ 1962	39.44	893.96	1610.70	4.4	2.4
„ 1963	47.72	1072.53	1864.75	4.4	2.6
Mar. 1965	73.83	1246.20	2094.74	5.9	3.5
„ 1966	90.76	1470.97	2346.80	6.2	3.9
„ 1967	178.55	1747.95	2717.25	10.2	6.6

Source: Extracts from table published in Economic Times dated 18.7.1969

It would appear from the above table that the financial assistance through commercial banks was meagrely available to this sub-sector, the major funds of the commercial banks being largely utilized for advances to large industry and trade and commerce. The government now have got a hold over 6/7th of the total banking resources which are likely to be diverted more vigorously also for the development of this sector.

The small scale industries sector has been availing of the credit facilities from various sources, agencies and governmental institutions including the State Directorates of Industries, the State Financial Corporations, Small Scale Industries Corporation Ltd., State Industrial Development Corporations and the State Bank of India through its scheme for small scale industries. Besides the availability of the ample financial resources to provide credit facilities to this sub-sector of the economy, itsdevelopment has remained lop-sided for lack of nationalization of domestic savings, appropriate climate for investment and absence of entrepreneurship and enterprise among the masses. The banking assistance shall be useful only if the above conditions are fully met.

Large Scale Industries and the long term financial institutions.

Commercial Banks have remained the important source of providing rapid industrial finance before and after independence to the large scale industries sector in India. With the nationalization of banks, it is likely that assistance to larger industries from this source need not become scarcer for the reasons apparent in the objectives of the nationalization of the banks. Also long term credit to this sector is amply available through the various financial institutions established for the purpose after independence. These include: the Industrial Financial Corporation of India (FCI) in 1948; State Financial Corporations (SFCs) 1950; the National Industrial Development Corporation Ltd. (NIDC) 1954; the Industrial Credit and Investment Corporation of India Ltd. 1955, Refinance Corporation of Industry Ltd. (RCI) 1958, Industrial Development Bank of India (IDBI) 1964. Life Insurance Corporation of India (LIC) and Unit Trust of India (UTI) have also now started participating in industrial finance.

With the establishment of the above framework for the financing of industries, there is no fear of inadequacy of financial assistance to the large scale industries sector.

The financial assistance from the above sources is available to large scale industries in the shape of long term loans in rupee currency, guarantee for deferred payments, foreign currency loans, underwriting, direct subscription, etc. There is uniformity in the

terms or conditions, rate of interest, mode of amortization or repayments for availing of the facilities from the above institutions. The trend in the pattern of assistance granted by these insititutions can be seen from the following table X :

TABLE X

(Rs. in crores)

Major Financial institutions	*Yearly disbursements*				
	1963-64	1964-65	1965-66	1966-67	1967-68
IFCI	20.5	20.1	25.3	31.2	23.9
ICICI	11.4	16.9	19.9	22.6	20.4
IDBI	11.0	18.7	35 6	49.8	41.6
SFCs	13.8	14.2	18.3	18.2	16.2
SIDCs	—	1.3	1.4	2.5	2.1
Grand total	57.7	71.2	100.2	124.3	104.2

Source : Annual Reports of IDBI for 1963-64, 1964-65, 1965-66, 1966-67 and 1967-68.

If a comparison is made of the above institutional financial assistance with the commercial banking credit advanced to the large scale industries, it would be revealed that as against the commercial assistance, the institutional assistance stands at quite low level. This can be depicted from the data analysed in the Table XI :

TABLE XI

Total Advances to Large Scale Industries by Scheduled Banks during Plan periods. (In crores of Rs.)

Industry	*First Plan*	*Second Plan*	*Third Plan*
Cotton	323.7	660.7	954.4
Jute	94.0	128.4	244.1
Iron & Steel	31.1	114.1	176.9
Engg.	97.5	400.4	1115.3
Sugar & Gur	192.6	345.8	386.7
Chemicals (a)	46.4	110.3	245.2
Cement	8.6	65.1	94.8
Paper & Paper Products	—	39.3	113.2
Plantations	—	50.4	190.0
Public utilities	28.4	69.0	155.4
Total (b)	1157.4	522.4	4822.7

Source : Above calculations are based on table IX.—page 169/170—Statisticalo utlines of Indian Economy by V.G. Kulkarni of Financial Express.

Note : (a) includes dyes, drugs & pharmaceuticals

(b) includes all others not mentioned

The data shown as annual average rate of banking assistance to different industries confirms that it has always remained 10 times more than the assistance disbursed by the financial institutions to the large industrial sector. This leaves a big gap to be filled in by the financial institutions for adequate commercial assistance to the large scale industrial sector.

CHAPTER III

PROBLEMS OF RURAL CREDIT

Problems of Rural Credit Vis-a-Vis Nationalization

The final recommendations of the All India Rural Credit Review Committee, made public immediately following the nationalization of the country's 14 major banks, include the reorganisation of rural credit by the Reserve Bank through establishment of Agricultural Credit Board, assigning a bigger role to the Agricultural Refinance Corporation, setting up a Small Farmers' Development Agencies in selected districts and creating a Rural Electrification Corporation to benefit under-developed areas with agricultural potentials. Besides, the Committee have, *inter alia*, defined the role of commercial banks in meeting the growing demand for the rural credit.

Vicious Circle of Rural Backwardness

It is expected that with the nationalization of the major commercial banks and in view of the proposed branch expansion programme to be undertaken by these banks in rural areas, a permanent solution might be found to the problems of rural credit. If this is done the rural economy shall be pulled out from the 'vicious circle of backwardness' and pushed ahead on the path of prosperity, *i.e.*, the attainment of higher rate of savings, higher rate of investment in agriculture and village industries, increased national output, fuller employment, raised per capita income, and larger share of the national income for the rural economy.

The attainment of the above goals is not, however, an easy task. The underdeveloped state of rural economy raises diverse problems of tedious nature to impede the process of rapid economic growth. These problems do not end simply with nationalization of banks, but they do come into limelight and demand solutions which, however, do not figure in the report of the A.I.R.C. Review Committee.

Demand & Supply of Rural Credit

The problems highlighted by nationalization are co-related with the demand and supply of the rural credit, its repayment and proper utilization and with the study of the impact of credit facilities upon the processes of village economic development.

We propose here to make an attempt to analyse these problems in the light of the proposed working of the nationalised banks in rural areas, with a view to evolve workable solutions to these problems which could perhaps be of some guidance to achieving the objectives officially laid down for the nationalization of the banks.

It is a matter of routine that the handling of the demand and supply of the funds is the sole determinant of the efficiency and successful working of the banking industry. But in the sphere of rural credit the demand and supply of funds is accompanied by a number of problems. On the demand side, for example, rural credit comes from different parties, for different amounts, for different periods and for different purposes. Nevertheless, it is interesting to note that Keynes' Theory of Liquidity Preference, from the viewpoint of the demand for rural credit, does not hold good in rural economy. However, the transactions and precautionary motives have different value, the transaction motive being seasonal while the precautionary motive being connected with the hoarding of gold and silver.

Problems on the Demand Side

Irrespective of the above fact, the demand for rural credit in village areas is always there. It exists in three forms, viz., (i) short term loans for meeting small requirements like fodder to cattle, etc. (ii) medium term loans for purchasing seeds, cattle, fertilisers, etc. ; and (iii) long term loans for acquiring tractors and other agricultural machinery, equipments, land, building construction, etc. The aggregate demand i.e. the total sum of these demands in the rural areas is usually inadequate to give sufficient business from a short run view for the banking industry in villages. Therefore, the immediate problem that may be encountered, as soon as the banking industry enters into the rural credit field, is to create an effective demand for the investible funds at the disposal of the banks.

Suggestions to Solve the Problem

Solution to the above problem, in short run, is difficult, as with the conspicuous absence of the banking system from the rural scene, the rural economy even today stands semimonetized not providing sufficient incentive to villagers to adopt banking habits. The village industries are still in their primitive stage. The inexperience of the village people in modern techniques and practices of production and lack of knowledge in the use of machinery are common features of an Indian village. The adoption of proper sales management is also yet confined to city environments. These

are only some of the hindrances to village industrial development. The rural economy can not develop at a speed necessary to generate a prompt demand for funds from the banking industry. These difficulties, of whatever magnitude and intensity, have to be overcome, if rapid village economic development is to be obtained.

Under the circumstances, two suggestions can be made to create an effective demand for banking funds in the village areas. First, the Reserve Bank should immediately undertake a massive propaganda campaign in the villages to educate the villagers that the Goverment plans to open banks for them soon and every village must prepare an estimate of its credit requirements for expansion and intensification of farming, with modern farm machinery, equipments, pumping sets, etc. and also assess other demands for credit for personal and domestic purposes. This propaganda should include the services of banks in different forms viz., acceptance of deposits, locker facilities, etc. which the banks would offer to villages. This work should be handled by a team of qualified and trained persons who can tour the villages and discuss the problems of villagers in respect of credit requirements, well in advance, and give suggestions for necessary guidance in the working of the nationalised banks.

Secondly, the government should give incentive in all possible forms to small entrepreneurs to establish their enterprises in the vicinity of the villages.

The above measures might solve the problem of creating demand for investible funds but the chain of problems is still moving on.

Supposing for the argument's sake that an effective demand for funds from banks is created and the credit changes hands from banks to borrowers. What shall be the effect of this change? Naturally, it will result in the credit expansion i.e. the increased demand for farming inputs, the inputs for small scale village industries and also for the consumer goods. The markets for these commodities shall be over-flooded by the demand and in the absence of the adequate supply inflationary conditions shall again tend to expand black marketing and check the rapid economic prosperity of the villages ; the profiteers shall turn iron into silver and the small farmer shall still suffer.

I can presume that the objective of the All India Rural Credit Review Committee behind their suggestion for the establishment of the Small Farmers' Development Agencies may be an answer, in the above circumstances, to the problems of the small farmer. But these Agencies may or may not cater to the requirements of all the farmers and the problem in general may remain unsolved. How-

ever, as regards black-marketing in inputs as referred to in the above paragraph, the banks can check it to some extent by adoping measures, viz. disbursing loans to cooperative societies formed by the members to purchase agricultural machinery for their own use on the farms.

Similarly, the excess of demand for consumers' goods shall not be satisfied till the supply from local market is ensured by establishing the small scale industries in the village areas. Therefore, the establishment of these industries in villages should be a precondition to the village economic development. These industries shall provide avenues to job labour that becomes spare in the process of modernization of agriculture. The role of the banks to give incentive to these industries is required to be redefined and a phased programme for implementation to solve these problems in the long run adequately evolved.

Problems on the Supply Side

On the supply side, under the postulates, with given availability of credit in different rural areas on competitive terms and cheaper cost with flexibility in thinnings of loan amounts, conditions of repayment and other terms to the convenience of the borrower, a large number of problems have emerged, maybe of academic nature at the moment, but of significance from the point of efficient running of the nationalised banks. These problems are as under :

(i) How shall the banks function in rural areas covering every village, if branch inauguration in all the 5.67 lakh villages is ruled out ?

(ii) How shall the banks face the illiterate lot of peasantry and villagemen to conduct their business in the interest of village community simultaneously assuring operational efficiency and profitability in their working results ?

(iii) How shall the feasibility of projected margin of security be watched in new conditions avoiding delay and bureaucratic red-tapism ?

(iv) How shall the repayment capacity of the farmer be judged when the mortgage of assets is sentimentally unsuitable to him for fear of contempt in society ?

(v) How shall the banks render social justice when the uniform set of interest in lending is not capable of giving due incentive to poor farmers and small creditors.

Answers to above Problems

The above problems are of great practical nature from the point of view of a judicious solution to be evolved to ensure the supply of rural credit in village areas, to the convenience of the village folk and conductive to economic development. Here an attempt has been made to trace out the guidelines for solution of the above problems.

Banking Service through Mobile Banks

It is not possible to open a branch in every village throughout the country for reasons of inadequate means of transportation and communications, lack of satisfactory business opportunities, unwillingness of the staff to shift to villages isolated from cities and bereft of civic amenities, absence of protective measures to guard the assets and properties of the bank and the employees, etc. Under these circumstances it may be useful to suggest that bank offices can be located in the Tehsils and Thanas and Mobile Bank Services can be started on the pattern adopted in Indonesia for its villages. These mobile banks shall tour villages twice a week with a stay of two hours in each village. In this way one mobile bank shall visit within a week nine villages and in a day three villages respectively. Each Mobile Bank shall have some staff—two clerks of unequal rank, one guard and a driver. The idea of offering the Mobile Bank services for two days a week in every village is to provide maximum facilities to villagers to withdraw from and deposit the money in the savings fund account or to borrow money by putting an application on the first day and drawing money on the next. To assure satisfactory working of the Mobile Bank system, the Principal Officer incharge of the Mobile Bank shall tour the villages occasionally and discuss the problems of rural credit with the villagers to accord them full satisfaction of the facility.

Security for loans

Illiteracy of farmers and villagemen in the rural areas shall affect the working of the banks in two ways *i.e.* while withdrawing money from savings funds and/or borrowing for productive and unproductive purposes from the banks against security of persons or property. This requires services of honest staff in the first instance. For operating savings funds a/c the photograph of the account holder and his thumb impression can be placed with the teller counter to identify the person. In cases where farmers are literate cheque books can be issued. For borrowing facilities a system can be evolved that the borrower for the short term can fill up the requisite application form referring his Savings Fund a/c number for personal identification and get necessary sureties who are also the bank or members of a recognised Cooperative Credit

Society or the members of the Panchayat or other executives suiting the convenience of the borrower. For other types of loans, peasants and villagemen be asked to visit the Bank office at Tehsil or Thana Sub-Headquarters and do the needful there. In this way the problem of villagers' illiteracy can be overcome so far as the transactions of the banks are concerned.

Agriculture is subject to the vagaries of nature. It will be difficult to predict anything about the production but estimates can be made. From this angle it requires an absolutely flexible approach to assess the feasibility of the project for which borrower wants the funds. For this purpose the criteria should be to ascertain and assure the genuineness of the funds required and watch their proper utilisation. This procedure shall invariably check delays and red-tapism.

As regards the security for the loans to be advanced, it is difficult to follow any rigid principle for accounting the margin for security. The assets of the farmers include livestock, the shelter, the bullock cart and traditional agricultural tools and equipments—all having meagre value. The security of their tangible assets do not form a proper security. The idea of collateral security is also not understandable in village conditions. Therefore, the forms of collective security (requiring others to act as sureties for loan) or issue of joint bonds by a group of borrowers under which each of them shall receive a separate loan and shall be responsible jointly or severally for the whole amount of the loan or by binding a cooperative society, can be very well relied upon as under these forms of security the risk of the non-payment or default in the payment of the loan or interest is minimized to a great extent. Besides, the bank shall have to procure knowledge and be in touch with the villagers, co-operative societies, Panchayats or other local bodies, each watching its own interest by watching its debtors. In certain circumstances when the request for loan is for short-term or medium-term, the banks can also accept gold or silver ornaments from villagers as security in the shape of pawnee and can extend the chances of their functioning as pawn shops on the lines of indigenous moneylenders where risk in repayment is limited to the fullest extent.

The acceptance of security in any of the forms suggested above shall be equally preferred by the farmers as they will be spared of social humiliation they might have to be put to by mortgaging their tangible assets.

The sole aim of making available the credit facilities to villagers is to cause an increase in production by effecting improvement in the means of production. The rate of interest to be charged

by the banks should be fixed on the basis of probable increase in productivity through acquiring and putting in new methods of production for which loan has been disbursed. For this purpose the discriminatory rate of interest shall have to be charged (a full description of the theory propounded by the author may be found in article entitled: "Problems of Industrial Finance—Plea for a discriminatory rate of interest", published in Southern Economist, 15th March, 1969) *i.e.* lesser the amount for loan, smaller the period, lower the rate of interest and vice-versa, depending upon the increase in productivity caused by the loan.

Repayments

The problems related to the repayment of the loans can be solved if a systemmatic amortization for different term loans in half-yearly seasonal instalments suiting to the farmer's repaying capacity is followed. In view of the illiteracy and villager's ignorance of banking procedures, the banks shall have to ensure reliability of the loanees, proper procedures, strict control upon staff to handle the repayment of the loans to avoid any mis-appropriation. Possibilities may have to be explored to include in the mode of payment such means of the postal orders, issue of cheques on Savings Fund A/cs or payment through Cooperative Credit or Industrial societies, or the institutions like Food Corporation of India, etc. of which the farmer-borrower is a bonafide member or customer, as the case may be.

In this connection, the role of the cooperative societies is required to be redefined. If the nationalised banks make it a principle to deal with small farmers through authorised cooperative societies, the cooperative movement can be given a new stimulus and life. It shall also facilitate the bankers' dealings with the small farmers. Such cooperative societies should not include more than 15 to 20 persons for their smooth running and proper functioning. Every member of the cooperative society shall have the Savings Fund A/c, unconcerned with the membership of the society in his individual name and shall operate it as an independent customer of the bank but for the purposes of borrowing loan from banks, and for repaying the amounts of loans, he will be recognised through his Cooperative Society. The liability of the membership of such societies shall be unlimited to reduce the risk of lending by the banks; there shall be provision for effective joint sureties as security to the bank, to make repayment punctual and to promote thrift among villagers. Such societies shall have borrowing worthiness, honesty and internal check on the need and uses of the loaned amounts.

Utilization of loans

But for watching the proper utilisation of the loan amount by

the villagers, the bank should not have to depend wholly on the cooperatives : they will have to mobilise their own efforts. For this purpose the bank shall have to make micro as well as macro analysis of the cost of credit and increase in the productivity of an individual customer and in the productivity of the total sum of farmers granted bank loans, and other facilities. Side by side the bank can also assess their own working by accounting rural credit out of the deposits from rural areas and the transfer of other funds.

However, in the end it will be suggested that with the nationalization of the banks and mobilization of banking resources into rural economy, the problems of rural credit are to be watched very carefully to assure maximum advantage and attain rapid economic progress. For this purpose, the All India Rural Credit Review Committee shall have to work annually to evaluate the progress, give suggestions and provide prompt attention to emergent rural credit problems.

Plea for a supervised credit scheme

The need for expansion of credit facilities in rural areas is long established. "Green revolution" in villages can not acclaim success until it is shared by the mass peasantry. The plight of the majority of the poor farmers is still miserable as the inadequate availability of resources impedes their enthusiasm to contribute their mite in the 'Green Revolution' ; they cannot acquire modern implements, apply modern techniques and combine better inputs in farm production, to create a cumulative effect of increased farm productivity upon their income, status and standard of living. This need has been recognised by the Government from time to time but no concrete step has been taken so far in this direction.

Small Farmers' Development Agencies

The nationalization of the major commercial banks by the Government has aroused some hope to meet the requirements of rural credit through banking operations in village areas, through plan framework under the policy directions and supervision of the Government. All India Rural Credit Review Committee has also suggested various steps to strengthen the rural credit structure to meet the requirements of credit of the villagers. For this purpose the Committee has suggested, *inter alia*, for the establishment of Small Farmers' Development Agencies in selected areas. These Agencies shall help the small farmer in the formulation of farm production plans and work as coordinating agencies for bringing to the small farmer the supply of the institutional services to accelerate the process of economic development of the villages.

The objectives laid down in the nationalization of banks and as contained in the All India Rural Credit Review Committee's report in respect of the Small Farmers' Development Agencies are very much inspiring but ultimately it is the mode to be followed to extend facilities to the farmers that shall determine the success of the scheme. From the current trend of the government attitude, it is, however, learnt that Small Farmers' Development Agency is being assigned an important role. It shall discharge various responsibilities, viz., identifying the small potentially viable farmer, provide him credit, input and farm services, to enable him to pass through the stage of subsistence farming to commercial farming. The Agency shall work through existing institutions and local authorities but it shall take all or some of the development tasks, if necessary. It shall provide financial grants to Central Cooperative Banks, Agricultural Credit Cooperative Banks, Agricultural Credit Cooperative Societies and Cooperative Land Development Banks in the areas as an incentive for financing small farmers and help them to build up special funds for covering contingent risks. In the first instance the Government shall establish the Agency as a pilot project in selected districts in the country and the success achieved and experience drawn therefrom shall be used to formulate comprehensive schemes for general adoption in subsequent plans.

The role of the Small Farmers' Development Agency seems to be parallel to that of Community Development Scheme and there is likelihood of carrying out overlapping activities.

The Community Development Project was started as a pilot project in 1951 and was subsequently adopted as an important programme for rural development in the Plans. But the degree of success achieved in the work of Community Development and the amount of expenditure incurred in the programmes, has proved fantastically discouraging and does not inspire to repose confidence in the existing modes of implementing the programmes of economic development of villages. Therefore, to obtain concrete results from the efforts that are to be made through the Small Farmer's Development Agencies or the nationalized banking structure in the village economy, a different approach shall have to be devised and followed.

The basic requirement for the success of the developmental programmes in village areas is the human factor whose contribution is to be elicited and associated through initiative and cooperation. This spirit of self initiative and cooperation has not so far been developed among the villagers, especially the poor ones, owing to their physical and mental inadequacies arising out of

ignorance, illiteracy and lack of proper reasoning and also partly due to the presence of hesitation and inertia. For these reasons, the farmers have remained unable to do their individual planning in farm production, setting budget estimates, procuring resources to implement the plan and assess the achievements of their efforts on productivity, yield and family betterment. These existing circumstances reflect indirectly the inefficient working of the Community Development Programme.

Based on these experiences, it is doubtful if the proposed establishment of the Small Farmers' Development Agency and other rural credit expansion programmes shall achieve the desired results. Therefore, efforts need be made to follow a course of action through which poor farmer could be inspired to take up individual planning for his farm production and family betterment. For this, the farmer requires concentrated guidance and necessary supervision to master the task and feel confident and adopt subsequently an independent line of thinking and doing i.e. planning his own schemes, implementing them and assessing the success derived therefrom.

Supervised Credit Scheme

Under these circumstances it is necessary that the Government should introduce the system of supervised credit and individual economic planning under a phased scheme for poor farmers which can invariably be associated with the proposed Small Farmers' Development Agency's activities. The scheme involves the mobilization of the services of educated persons with bent of mind towards the national service, to procure social uplift and remove economic backwardness of the mass peasantry by helping them in the formulation and implemantation of farm production plans and family betterment and to render necessary guidance and supervision in the implementation of these plans by procuring the credit facilities and other institutional help from the existing agencies. The supervisor's task is not limited to farm production or procuring better living to the farmers but also to arranging for the transportation and marketing of the farmer's produce. The structure of the proposed scheme can be highlighted in the following paragraphs :

In the whole structure of the scheme the keyman is the Supervisor who shall be a man, educated and specially trained in the line of individual farmers' production and family betterment plan formulation and shall belong to higher cadre in Civil Services. He shall live in the village and in the first instance be incharge of supervising the economic planning and better living programmes of 30-50 families. He shall individually discuss the problems of the farmer and his family, assess the farmer's productive means and living standard, prepare a plan in collaboration with the farmer for

farm production and better living, set the budget estimates, procure necessary means for implementation viz., credit, agricultural inputs, modern farm service, assessment of the production and productivity of efforts, arrange for transport and market of the produce, repycment of credit, deposit of surplus funds in the Bank and also to see that the farmer has spent the money as per family budget procuring the target fixed for improvement in living conditions by persuading the change of their rural-type backward habits. He will revolutionize the farmer's family life with modern living habits, in homely comforts, by getting the available modern means of better living for him and his family.

To achieve success in the above scheme, the personal qualities, attitude, status, satisfactory employment conditions besides technical competence of the Supervisor shall count a lot. To satisfy these requirements, he should be a man of the I.A.S. Cadre designed in the Indian Rural Service with all other facilities equally available for him. Services of retired or retrenched army officers can be availed of, if necessary. He will have his small staff under him including one assistant-cum-stenographer with necessary office furniture, free conveyance with office-run-residence located in a village. If a village has 200 families, the Supervisor shall in the first instance in the first year take up 50 families to be looked after. One year's training for these families in farm production and better family living shall be enough. For the next year, the Supervisor shall take 50 more families and shall look after 100 families and so on. After a village is fully developed under the individual economic planning and better living programmes, the Supervisor may be retained or shifted from that village. He should also have his promotional chances to higher grades for incentive and hard work. The personal qualities, the education, cadre and status, the nature and capacity of working and the scope of his duties and responsibilities shall differentiate him from the village level worker, the so-called architect of village development programmes under the Community Development Scheme.

In foreign countries specially the Latin American nations the system of supervised credit has achieved far imagined success. In Honduras, Brazil, Paraguay and Mexico the system of supervised credit is very much in vogue and the cost of the scheme is borne by the beneficiaries. For example, in 1952 in Honduras, the total cost of the credit was assessed 40% of the amount borrowed which included 8% towards interest ands 32% toward other costs. This cost was borne by the customers. It is further learnt from the experiences of these countries that in the initial stages, great difficulty is faced to get qualified persons who can be fitted in the job. But these difficulties were solved by working on the scheme in

selected areas where personnel and resources availability requirements were fulfilled.

The above difficulties might not be faced in India. Community Development Blocks scattered throughout the villages in the country can be properly utilised. The services of the Block Development Officers in this regard can be in the first instance tried. The idea should be that the competent men should take the responsibility in a most challenging way to make the scheme a success. After the problem of personnel requirement is solved, the cost of the supervisory system can be met by the farmers out of their increased productivity and yields which can be raised through some tax or fee as may be more convincing and suits to the convenience of both the taxpayer and the Government agency to collect the same.

The Planning Commission can consider this aspect of planning and devise the necessary framework to launch it in a phased Programme.

The advantage of this scheme shall be immense. Besides the indlvidual farmer's economic prosperity being assured, the existing agencies meant for contributing resources for rural development shall render their active help ; the corrupt habits of getting undue money from farmers under undue influence of the traders shall stop ; better use and coordination in different agencies shall be promoted through the efforts of the keyman. of the Supervised credit and individuals' economic planning schemes. The Supervisor in his spare time can guide by participating in Panchayati Raj institutions and other activities of the Block to give his practical suggestions and watch their success in reviving the economic life in the villages.

Prospects for Rural Money Market

In India's rural economy, money market has remained conspicuously absent. The indigenous money lenders have met more than three-fourths of the money demaned of the villages. It was only in the current decade that the cooperative credit societies in the villages have slowly and steadily entered into the field. Still the monopolistic powers in supply of money to villagers are retained and exercised by the money lenders, The rate of interest being charged by them ranges between 4.5% to 40% inclusive of compound interest as against the rate of 7 to 11% charged by the Government credit societies There has always remained a supply and demand disequilibrium in favour of the money-lenders' charging high prices for their money-lending operations, as the gap between the excess demand for credit in rural areas could not be

matched by proportionate credit supply through other institutional arrangements except the money lenders.

A reciprocity is being observed in rural conditions reflected in the absence of money market rendering the village economy under-developed. A banking expert will say money market could not be developed in rural areas because of the backwardness of the rural economy which has so far been claimed as a non-monetized sector, the role of money being played by real commodities.

There can be, however, no denial of the fact that selling (borrowing) and buying (lending) of money in rural economy at a certain price (interest rate) determined under the monopolistic conditions was circumscribed by sheer opportunity rather than established in the shape of a money market, owing to lack of organised banking system in the village economy and the absence of specialised sub-markets like bill-market, bond market, call-loan market etc. in the country as a whole. Besides, there remained limited operation of monetary policy in village conditions owing tounsensitive impact of urban influence upon the rural economy. The mobility of capital funds towards investment in farm or village industries was thus hampered.

The necessity for a developed money market in rural areas was felt as long back as reflected in the findings of the All India Rural Credit Survey, 1951-52 to develop rural economy by channelising investible funds in villages to finance the development of agricultural industry. But this responsibility solely developed upon the cooperative movement which did not come up to expectations and rendered the miserable state of affairs to exist.

In-between, however, efforts were made by the Reserve Bank of India (as the Central Bank of the country) to assure satisfactory supply of credit at reasonable cost to villagers through the channels of the Cooperative Credit Societies and the Cooperative Credit Banks. Amongst these measures were, inter alia, the facilities of re-discounting and advances to provide accommodation to State Cooperative banks against eligible bills, Government and trustee securities including debentures of Central Land Mortgage banks guaranteed by the respective State governments. In states where the Cooperative movement is not sufficiently developed, the Reserve Bank of India grants loans to State Cooperative Banks against eligible bills, and promissory notes fully guaranteed by the respective State Governments. Further, the short term credit facilities to the Cooperative Banks were also made a part of the Bill Market Scheme mentioned above. For Commercial Banks, the Reserve Bank of India now makes short or medium term advances to State Cooperative Banks at concessional rates which are 2% below the bank rate.

Besides, the Reserve Bank took various steps to strengthen or streamline the agricultural financing procedures, right, from establishing the National Agricultural Credit (Long Term Operations) Fund, National Agricultural Credit (Stabilisation) Fund, Agricultural Refinance Corporation and also by issuing policy directives to the State Bank of India and other commercial banks from time to time.

In spite of all the above efforts, the rural economy, by and large, has remained stagnant for the reason that monetary planning was confined to the higher levels and it never descended on the farm land to work before their eyes, to make them understand of its importance, to inspire them to participate in it and contribute their efforts to its progress.

Now, the farmers are at the advent of prosperity. The 'green revolution' is knocking at their doors with silver bowls full of grain and gold coins. The farmers who have met this fortune are happy and in this happiness they have lost the sense of proper use of their money. This happiness has resulted into vulgar display of money, carrying all the vices which are 'don'ts' for a prosperous ideal living. This money is not being used for productive purposes. Rather the Adam Smith's 'Wealth of Nations' is being lost in extravagance and prodigality. Nearly 16 to 20% of the national income is being estimated in the hands of the farmers who have to be taught the proper use of this money through deposit mobilization and opening new investment channels.

The recent experiences of the Land Development Banks in raising their resources from farmers through rural debentures are very much discouraging. The Loan raised is only 1 crore of rupees while the lending operations are of the order of Rs. 100 crore per annum The farmers are reluctant to invest their surplus money in rural debentures for the reason that the rate of interest in the money lender's market is quite high and he enjoys that high rate by lending money working as a money lender. Under these circumstances, with the nationalization of banks, better prospects can be visualised for the rooting out of the monopolistic lending conditions on high rates of interest in villages, and mobilize the rural surplus through bank deposits in productive channels for the development of rural economy and thus meet the broad social objectives.

The above goal can be achieved only through a developed rural money market where it will be possible to provide banking facilities at the doors of villagers and cultivate in them the banking habits, to mobilize the surplus money they possess into investible channels, to increase the liquidity of money which lies with their

hoards or is spent away on drinks or gambling, supply at competitive marketable rates investible funds for capital formation, to raise productive potentials of farmers in farm production and small village industries, trade and commerce in villages and maximizing the advantages of all individuals in the society.

To develop the rural money market the contribution of the various institutions shall have to be solicited. Besides nationalized and cooperative banks and the Cooperative Societies the role of Post Office, Life Insurance Corporation; Food Corporation of India, Small Farmers' Development Agencies shall have to be re-defined. These institutions shall work in such a way that they can mobilize the surplus funds from the villages at the maximum possible. As regards Life Insurance Corporation, the roaring chances for bussiness are to sell the Life Insurance to farmers. The Food Corporation, can very well, while making payment to the farmers for their produce purchased, can give some amount in cash or some amount in bonds or securities which bear interest and can be cashed by farmers any time they wanted. This will put a check on their spendings and at the same time cultivate frugality in them. Similarly the Small Farmers' Development Agency proposed to be opened in villages can accept advance payment from the farmer for rendering farm services of inputs at the cropping season. These institutions shall work in coordination with each other so that the rural money market shall develop.

CHAPTER IV

NATIONALIZED BANKS AND THE COOPERATIVE MOVEMENT

In the democratic planning designed to achieve socialist pattern of economy for the nation. the cooperative movement plays a significant role to bring about decentralization in productive units, both agriculture and industry, with all possible advantages of scale of production and organisation, conforming to the principles of business management, not simply as a profiteering association but inspired by service motive, and resulting in economical working.

To achieve economic development of the country's numberless villages, importance of cooperative movement has been recognised by the Government from time to time. Before and after independence, various efforts have been made in this respect at government level with a view to make the cooperative movement a prime factor in economic development. Attempts have been made to inspire initiative and enterprise in the rural inhabitants and to make them adopt and assimilate the spirit of cooperation in every walk of life—economic and social.

A Beginning of the Cooperative effort

The beginning of this effort was made initially by sponsoring mutual association of people. Subsequently, the Cooperative Credit Societies Act, 1904 was enforced to spread the movement. This Act was amended in 1912 to permit societies doing businesses other than the loaning of credits. But the Cooperative movement in spite of all these measures has failed in India as first pointed out by the All India Rural Credit Survey Committee of 1951-52.

Ever since the recommendations of the All India Rural Credit Survey Committee, strenuous efforts have been made continuously to retrieve the cooperative movement throughout the country, especially in rural areas. Great importance was attached to enliven and to speed up the cooperative movement under the Five Year Plans envisaging the planned rural economic development. But, again, it could not make much headway owing to continued lack of banking and credit facilities in the rural areas. In the interim report as well as in a recent report of the All India Rural Credit Survey Review Committee a great stress has been laid upon the mobilization of banking facilities to villages for rapid develop-

ment of the rural economy. With this end in view, nationalization of the 14 major commercial banks provides new prospects for the cooperative movement in the country. This is a constructive step, the Government has taken to bring about social change—to discourage concentration of wealth in few hands, to mobilize credit resources to priority sectors—agriculture as well as small scale industries—ensure equitable distribution of productive resources and wealth for regional development of under-developed regions, and generaally to establish the long-delayed socialist pattern of the economy. In this way the attainment of a comprehensive economic development throughout the nation seems to have been the guiding factor with the Government to the new policy for the banking sector. But all this optimism shall depend upon the spirit with which the movement of cooperation is to be ushered in the villages.

Achievements :

The achievements made so far during the plan periods in the field of cooperative movement can be seen at a glance from Tables XII and XIII given below :

Table XII—All-India Trend of Progress : All Types of Cooperative Societies.

Items.	At the beginning of the : First Plan (1950-51)	Second Plan (1955-56)	Third Plan (1960-61)	1964-65
1. Number of Cooperative Societies (in lacs)	1.8	2.4	3 3	3.5
2. Number of membership of Primary Societies (in lacs)	137	176	342	486
3. Share Capital (Rs. in crores)	45	77	222	400
4. Working Capital (Rs. in crores)	276	469	1312	2460

(Source : Report 1967-68 : Department of Cooperation—Govt. of India)

Table XIII—All-India Trend of Progress : Agricultural Credit Cooperative Societies.

Items	First Plan (1950-51)	Second Plan (1955-56)	Third Plan (1960-61)	1965-66	1966-67
	At the beginning of the :				
Short & Medium Term Loan :					
1. No. of Societies (lacs)	1.05	1.60	2.12	1.94	1.81
2. % coverage of villages	N.A.	N.A.	75	90	—
3. No. of membership (lacs)	44.08	77.91	170.41	266.23	272.21
4. % of population coverage					
(a) Villagers	7	12	24	33	35
(b) Farmers (estimated)	9	15	30	42	43
5. Average Membership of each society	45	49	80	137	150
6. Paid up Capital (Rs. in crores)					
(a) Total :	7.61	16.80	57.75	116.24	128.08
(b) Government	N.A.	0.58	5.71	10.67	11.53
7. Deposits (Rs. in crores)	4.28	7.04	14.59	35.32	45.99
8. Working Capital :	37.25	79.10	273.92	550.40	600.51

The achievements of the cooperative movement were meagre during the first plan period as may be observed from the above Tables. During the First Five Year Plan no integrated programme for the development of the Cooperative movement was pursued. But during the Second Plan, on receipt of the recommendations of the All-India Rural Credit Survey Committee of 1951-52, an attractive and coordinated programme of cooperative development was prepared and launched. This programme envisages stress on three aspects, viz. extending the scope of activities of the cooperative movement beyond credit i. e. to include cooperative farming; bringing every family in a village under the membership of at least one cooperative society; and making every family in the village creditworthy.

Steady and Slow Progress

The above efforts resulted in a steady and slow progress of cooperation, but its coverage has so far remained limited to 40%

families in the villages. Now, again an ambitious programme has been drawn up in the thesis of the Fourth Five Year Plan to extend its coverage to 75% of the families. Further, within the village community, there are sections of the population who need special help; cooperative movement shall endeavour to meet this requirement and discharge its obligations towards all the families in village community and help in bringing the development of land and other resources, and foster social services in common interest of villagers to reorganise rural economy. To put into reality the ambitions of the Fourth Plan and transform the village life into a cooperative structure entails vast requirements of credit. The present net-work of credit facilities through cooperative banks and land mortgage banks in village areas has not been able to meet the needs of the situation as may be observed from the following Table XIV:

Table XIV.

Items	At the beginning of the: Ist Plan	IInd Plan	IIIrd Plan	1965 66	1966-67
I. STATE COOP. BANKS :					
1. No. of Banks	15	24	21	22	23
2. Paid. up Capital (Rs. in crores)					
(a) Total :	1.58	4.37	18 24	28 81	31.16
(b) Govt. contribution	N.A.	1.88	6.46	9.85	N.A.
3. Deposits (Rs. in crores)	22.08	36.67	72.33	146.68	150.41
4. Loans & Advances	42.13	67.86	258.20	475.73	425.87
II. CENTRAL COOP. BANKS :					
1. No. of Banks :	505	478	380	346	348
2. Paid-up capital (Rs. in crores)					
(a) Total :	4.04	8.50	37.93	76 28	86.24
(b) Govt. contribution	N.A.	1.26	10.04	19.26	22.08
3. Deposits (Rs. in crores)	37.79	55.71	110.59	236.91	260.71
4. Loans and advances	82.83	79.83	350.91	772.04	647.35
III. LAND MORTGAGE BANKS :					
1. No. of Banks					
(a) Central :	5	9	18	18	18
(b) Primary :	286	302	464	673	714
2. Loans & Advances (Rs. in crores)	1.38	2.86	11.62	58.24	60.32

Available Resources Inadequate

The above Table shows that the resources at the disposal of the Cooperative movement in the rural areas are inadequate. The present requirement of rural economy credits is estimated at Rs. 3000 crores per annum which is difficult to be met from the available resources of the Cooperative banks in the rural areas. To satisfy this requirement, thorough reorganisation of cooperative credit societies, is imperative and hence the recent step for the nationalization of major commercial banks. The new resources plus the resources of the State Bank of India and its subsidiaries would thus place an aggregate amount of Rs. 4,000 crores at the disposal of the Government which should be enough to finance the development programmes in the manner desired. These resources amount to 80% of the total banking resources of the country. The success of the cooperative movement can very well be ensured if these resources are handled with due care by the villagers and the customers of the banks and are given through the agencies of the cooperative movement. The success of the scheme will depend upon the policies to be followed by the Reserve Bank of India towards different agencies working for and on behalf of the Government for the development of rural credit sector.

Reserve Bank of India and Cooperative Movement

The Reserve Bank of India, as the Central Bank of the country, has been holding full responsibility for the development of the credit facilities in rural areas ever since its inception in 1935. It makes the finances easily available for farming and allied agricultural activities by advancing to Cooperative Banks, Land Mortgage Banks and for giving rediscounting facilities to the commercial banks. For this purpose, the Reserve Bank of India has been maintaining an Agricultural Credit Department. Prior to the inauguration of the Reserve Bank of India, Central Government had appointed Sir Malcolm Darling to report on different matters connected with cooperative finance and to present his views on the constitution of Agricultural Credit Department. In his report which was received in January, 1935 it was opined that cooperative movement was the best agency of agricultural finance as it was capable of supplying credit facilities to the rural sector of the economy provided it was reconstituted and revitalised. Since then, the Cooperative movement has mustered some progress although at slow pace and its contribution to the needs of credit of the village economy has increased from 3% to 40% in the form of the total borrowings of the cultivators. This was reported by the Committee of Directions of the All India Rural Credit Scrvey of 1951-52 in its report published in December, 1954.

For enlarging banking facilities and in helping to divert a larger flow of credit to the rural sector, the main recommendations made by Rural Banking Enquiry Committee, the Informal Conferences and the All India Rural Credit Survey Committee, inter alia, included : (I) Extension of the activities by cooperative banks beyond towns to villages and by commercial banks from bigger to smaller towns (ii) Extension of network of branches by the Imperial Bank of India (now State Bank of India) beyond banking treasuries to non-banking treasuries, and (iii) the opening of the office in headquarters of the major states by the Reserve Bank of India.

In this way the Reserve Bank of India has been contributing a lot towards the revival of the Cooperative movement in the discharge of its sole responsibility for the promotion of cooperative movement and for provision of facilities for agricultural finance. The Reserve Bank of India was empowered under the Act to provide the State Cooperative Banks necessary credit facilities in the form of advances and rediscounts and as such the flow of facilities has been continued through various organised and reorganised schemes in which the State Bank of India had participated by opening its branches in semi rural areas. With all this emphasis, the Cooperative movement could not be accelerated as was contemplated.

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The Government was acquainted with the unsatisfactory progress of the Cooperative movement. To cause rapid promotion of the cooperative sector, it was necessary that the cooperative banks should discharge their responsibility more efficiently and sincerely. With this end in view the cooperative banks were brought under the purview of the banking law by the Banking Laws (Application to Cooperative Societies) Act. 1965. This Act came into effect from March, 1, 1966. By virtue of this legislation, some of the provisions of the Banking Regulations Act, 1949, relating to licensing of banks, maintenance of cash reserves and liquid assets, regulations of advances, issue of directions etc. also became applicable to cooperative banks and the vlountary inspection of cooperative banks by the Reserve Bank of India was replaced by the statutory inspection under Banking Regulation Act. The All-India Rural Credit Review Committee was also set up by the Reserve Bank of India in July 1966 for reviewing the supply of rural credit. The final recommendations of this Committee were recently published and have yet to be implemented. On the basis of the interim recommendations the social control over the commercial banks was imposed in February 1969 to divert the banking resources to the village economy, but no monumental progress was envisaged through this step. Hence, the nationalization of banks was resorted to by the Government to provide greater scope for

the promotion and progress of the Cooperative movement in the rural sector. But further progress in this behalf shall depend upon the monetary and credit control policies of the Reserve Bank of India.

Some Weaknesses and Cures

Some basic weaknesses noted by the All-India Rural Credit Survey Review Committee in the Cooperative credit structure viz. high magnitude of overdues and inadequacy of owned resources, especially deposits, have yet to be diagnosed and removed for procuring operational efficiency of cooperative societies. Now this could be done easily through the nationalized banking services equipped to give good banking services in rural areas to the co-operative societies and their members. Larger financial accommodation can be provided for marketing and processing purposes through the channels of nationalized banking sector through the cooperative societies. Facilities for conversion of short term loans into medium term loans through the Cooperative credit societies shall be made more convenient for the farmers, small scale industrial entrepreneurs and village tradesmen. Through the flow of resources and control upon the resources, it will be possible to strengthen the Agricultural Credit Relief and Guarantee Fund of the State Governments and the Agricultural Credit Stabilization Fund of the Cooperative Banks. In this way the ambitions enlivened in the Fourth Plan can be fulfilled by increasing the capacity of the Cooperative credit structure consequent upon the nationalisation of banks.

The role of the nationalized banks, therefore, stands to be re-defined so as to evolve a procedure which may facilitate the Cooperative movement in rural sector becoming a part of the banking transactions. This will in turn enable the Cooperative societies to become larger borrowers or depositors with these banks with members having their joint responsibilities; minimizing the risks and maintaining higher operational efficiency both of the banks and the societies. In this way the village community with 80% of the country's population shall stand reorganised through cooperation, an important feature of the proposed socialist pattern village economy.

CHAPTER V

NATIONALIZED BANKS

Added Responsibility of RBI

The nationalized banks have to perform a new role in the rural economy of the nation. The development of villages from economic and social angles is the main responsibility of these banks by meeting the credit requirements of the villagers for purposes of farming and allied agricultural activities, small scale village industries and other ecnomic and social performances. This responsibility is to be discharged by these banks under the supervision of the Reserve Bank of India—the sole guiding agency of the Govt. of India, for the implementation of monetary plans. For this purpose, the reorganisation of the Agricultural Credit Departs ment of RBI to reshape its rural credit activities is being planned a. recommended by the All India Rural Credit Survey Review Committee recently to enable RBI to conduct its role more systematically and to accelerate the implementation of the objectives of the nationalization of the banks.

Notwithstanding the above efforts being made to administer and regulate the rural credit through reorganised system of RBI. some delay in making available the banking facilities to the villagers is bound to occur. Impediments causing this delay can be linked with three circumstances. In the first instance, the available resources with the nationalised banks are blocked up for some time in the shape of loans and advances for different periods in industries, business enterprises, etc. The amortization or repayments or the expiry of the contracts of the Banks with these parties shall take its routine time unless some other course is abruptly followed. In the second instance, it will take some time for the Banks to decide and plan the opening of the branches in rural areas or for operating the mobile bank services. The absence of the presence of the banks in either of the above two shapes shall delay the mobilization of rural surplus resources through bank deposits for productive activities. In the third instance, the procedural delays are usually inherent in new experiments, and these can be more complicated in the operations of the banking industry when applied to the rural economy. The above factors combined together shall cause considerable delay in the achivement of the objectives stipulated for the nationalization of Commercial banks.

However, the delay can be curtailed if the RBI immediately takes over its added responsibility besides its routine functions

which include, *inter alia*, the functions of the Central Bank and banker of the Government to regulate currency and credit, and the operation of the instruments of general credit control as the ends and the means of the monetary policy.

The added responsibilities of the RBI shall be reflected in the shape of control the RBI has to exercise, the policy directions it has to issue, the reconstruction plan it has to put before the banks for implementation and achievement of the national objectives like the high level of employment, domestic and external monetary stability, and the proper adjustment between the supply of commodities and the monetary demand of the people to mobilize the resources from non-productive purposes to productive activities for higher out-put and maximizing management and labour skills.

In the present circumstances when there is growing demand for modern agricultural in-puts and the consumers' goods, in the wake of growing emphasis for modernising the farm-production and village industrial activities and to raise the standard of living in the villages and towns, the responsibility of the Central Bank to foster a check upon inflationary tendencies and maintaining price stability can very well be appreciated. This can however, be achieved not simply through the monetary policy of the RBI or the fiscal measures or debt management policies ; a new approach is called for to redesign these measures in their totality vis-a-vis economic policies in general.

The experiences of the State Bank of India are of important advantage for designing the set of banking activities in the rural sphere. But the pattern of the SBI cannot be followed in matters relating to rural credit as SBI has not succeeded in establishing itself, to the desired extent, for meeting the requirements of rural credit or to facilitate the rural credit expansion despite more than a decade's existence.

For the success of the rural credit planned to be extended through the nationalised banking sector, the spheres necessitating new role for the RBI can be summarised as under :—

(i) designing plans for the operation of the banks ;

(ii) to supervise the performances of the nationalised banking sector in the rural field ;

(iii) annual assessment of the implementation of the above plan in respect of every bank ;

(iv) analysing the operations of the banks through the accredited rural credit research department for new devices and measures to be suggested to tackle the difficulties and ensure success ;

(v) close examination of the accounts pertaining to the mobilized rural deposits in rural areas and flow of resources inside and outside this account to give an idea of self-sufficiency of rural surplus funds or deposits or its dependence upon other resources with a view to its striving for self-sufficiency ;

(vi) to assure equitable distribution of rural credit amongst the village community and maintaining seasonal cycles through built-in flexible system of refinancing and rediscounting schemes ; watching and fostering the development of the Co-operative Sector in the rural economy by persuading the banks to give incentive to Co-operative movement and increasing dealings with them.

The success of the nationalised banking sector shall lead to the success of the economic policies of the Government of India as far as the development of rural economy is concerned. But the implementation of the nationalized banking programme shall take time and the threefold delay which can be perceived in the decision-making, implementation of the decision and the achievements can be avoided if the RBI takes the above steps immediately. The targets of growth rate put in the Fourth Plan cannot be achieved, as far as the contribution of rural economy is concerned, until and unless the nationalized banking sector starts its operations in the village areas under the able guidance of RBI in a phased programme to show success, profitability and efficiency.

CHAPTER VI

SOME CONDITIONS FOR SUCCESS

For the success of nationalized banking comprehensive efforts are required to be made to make the operations of banks effective from the point of diverting activities to the rural economy and to attend to the credit requirements of the priority sectors. For this angle, fulfilment of some basic requirements will be necessary. These conditions include decentralisation of banking offices, implementation of certain requisite operational and organisational changes, and soliciting the worker's contribution and people's co-operation.

The decentralization of banking presupposes absence of competition amongst nationalized banks. Concentration of branches of many banks at one place will have to be avoided to utilize better the capacity and resources of one bank at one place. One bank should serve more places by opening branches in the places where there are no branches of other banks. This will increase the operational efficiency of the bank by reaping more business and thus indirectly reducing the costs of services. Cultivating the banking habit in the population particularly in the non-banked areas is likely to take some time These people will have to be persuaded rather personally by the banking personnel to deposit their earnings into the banks and approach the banks when necessary for their credit requirements without hesitation. This time-lag will have to be borne in mind while planning the opening of new branches in the non-banked areas.

The present day banking practices are also required to be modernized to assure safety, liquidity and protection of the deposits of the people in non banked areas. The system is required to be-rationalized through making certain requisite and suitable operational and organisational changes. This change is essential to achieve the desired objective of the nationalization of banks. The present banking operations and organisations were mainly developed and designed to suit to the urban climate. The entry of banks in the new field of rural economy is likely to bring new experiences To maintain operational and organisational set-up may require built-in flexibility so necessary for adjustments in the procedures and lines of action. The aspirations of the people will have to be kept in mind to assure service-oriented and development -oriented banking in the under-developed rural areas. The profitability criteria will recede while that of maximization of social

walfare and improvement in social productive resources through banking assistance encouraged. The development of agriculture in the new climate of modernization and the removal of unemployment through the development of small scale industry are two basic tenets of developmental planning of the present day which have got to be assured through the business of the banks by making the nationalization experiment a success in the attainment of the nation's objectives.

There are some important determinant factors which can provide the desired aid in streamlining the operational and organizational set up of the banks, viz. policy directions to the banking units operating in the rural areas, the freedom of decision making at the Unit level, the coordination of all existing village institutions, viz. Panchayats, Block Development Offices, Cooperative Societies and Banks. Also the availability of better trained personnel at this level should, to some extent, meet this requirement. There is an imperative need for opening institutes to train bank employees, to acquaint them particularly with the knowledge necessary for meeting the requirements of agriculture and small industry.

Another important condition pertains to assessing the peoples' contribution, highlighting the role of the customers and the beneficiaries of the nationalized banks in the rural and urban areas, to speed up deposit mobilization, and assure full utilization and the banking resources and facilities. All this requires propaganda and a planned programme to educate and acquaint the masses and the population as to how they shall be able to avail of the services of the nationalized banks.

The Follow-up Action

Nationalisation of banks is proclaimed by the protagonists as the 'first step in the right direction' towards economic emancipation of the people to enable the country to achieve social and economic freedom, to eradicate backwardness and poverty, and to remove disparities between the rich and the poor.

New Programmes and New Directions

To achieve these objectives, the nationalized banks have followed some course of action in various new programmes and directions which *inter alia* include special schemes for financial assistance to the common man for promoting his different economic activities. For example, artisans and technicians may get long term loans to acquire machines, tools, worksheds ; current loans for puchasing raw materials and marketing the products ; the small persons like vegetable, fruit and flower stall-holders may get loans for acquiring stalls and cold storages and working funds for purchase and marketing purposes. A retail trader may get

financial assistance to purchase stocks and for their marketing; transport owners for passenger vehicles, professionals for setting up and conducting professional services, fixed income groups may get consumer credit loans for acquiring consumer durables. Besides, farm loans have been made available to agriculturists for inputs of seeds, fertilisers and pesticides including equipment loans for tractors, pumps, development loans for levelling and bunding of land, sinking wells, etc. Short term loans, working capital and advances to small scale industrialists are being made available with flexible margins and moderate interest rates including project loans for the technicians with ideas but without capital for small scale enterprises. Nearly all the banks have been advertising for such facilities being made available to the common people but it is doubtful whether the banks have relaxed their security requirements to deviate from a traditional line of banking cannons. Nevertheless, the suggestions contained in the earlier chapters providing for a course to be adopted by the banks shall prove valuable and practicable to the banking industry as a whole. Of course, the banks having no earlier experience of financing the rural requirement shall have to learn by trial and error but the timely guidance shall reduce the range of errors in such trials.

Indian Bank, one of the leading banking institutions of south India, has announced special schemes for artisans and technicians and several other professionals as some of them, narrated above, have not been benefiting from the banking system of the country so far. According to a press report, over 1,000 branches have been planned to be opened this year to serve the community at large. The network of branch expansion shall be based on a coordinated and well planned phasing to avoid duplication or overlapping. It has been estimated that 4,000 to 5,000 more places in India. require banking facilities at a rate of 1,000 branches every year; this need would be met in about five years. The consumer credit schemes of the bank announced in December last have been availed by 8,000 consumers involving an amount of about Rs. 60 lakhs. The bank plans to cover 2,200 merchants of flowers, vegetables, fruit and other perishables before the end of the year.

The other nationalized banks have also been devising similar programmes to enter into the field for satisfying the requirements of the common people. However, the broad framework of the banking policy in this regard is being chalked out by the concerned departments of the Central government. It is expected that the government shall very soon announce the guidelines upon which nationalised banks shall base their operations. But the general objective of rendering service to the common people has

been clearly to every nationalised bank and it is only on the basis of these general objectives that the banks are now planning their operations. So long as the specific directions are not received from the Reserve Bank or the Central government, they are planning on their own.

Bank Loans to Students

Some of the banks have announced schemes to finance the higher studies of poor students The idea is to help financially the needy students. It is greatly benevolent to society. On the one hand it is proposed to provide an opportunity to all deservins students for acquiring higher education which was heretofore a remote goal for the financially handicapped students who had to leave their ambitions unfulfilled; on the other hand, it will create social and economic equality by bringing up the financially handicapped students to establish themselves in life with the financial assistance now being made available through the nationalized banks.

Amongst the banks which have recently announced their commitments towards helping the students are the Bank of India, and the Syndicate Bank. As regards Bank of India, the loan would carry simple interest of 4% and would be repayable between 5 to 10 years after the students have completed their studies and started a career. The maximum loan payable to a student for studies in India would be about Rs 10,000/- while those going abroad could secure loan upto Rs. 25,000/-. The Banks have a plan to help students to set up a small scale industry or a professional establishment.

As regards the Syndicate Bank, according to shri T.A. Pai, Custodian, it would appear that as far back as 1959, the syndicate Bank instituted a scheme of foreign study loans for educational purposes in order to build up the nation's human resources. Under this scheme clean loans upto Rs. 5,000 (Rs. 7,000 post devaluation) for studies in the USA and Canada are granted repayable in 36 monthly instalments after the completion of studies and at an effective rate of interest of 7.5% P.A. So far 1927 foreign study loans have been granted for Rs. 49.41 lakhs out of which 190 loans amounting to Rs. 8.90 lacs have already been repaid. Since last year, the Bank has started advancing upto Rs. 3,000 as loans to students for higher studies in engineering, technology, business administration, etc. in Indian universities. The Bank has also established a loan scholarship fund to which it donates generously from its own profits for granting loans for technical education. The fund has so far given 644 such loans amounting to Rs. 2.23 lakhs at four per cent interest.

In this connection it may be mentioned that the State Bank of India has been considering a similar proposal to assist farm graduates. The proposal envisages a scheme to provide financial assistance to graduates who take to farming and have worthwhile projects for agricultural production. The SBI and its subsidiaries have initiated such a scheme on experimental basis in selected centres. For this purpose, the scheme will operate only in areas which are most responsive and yield maximum profits where adequate water supply is assured and fear of any baneful effect like drought, flood or water-logging is not apprehended. Regions already included in the intensive area district programme and high yielding variety programme are being given special preference.

Under the scheme, the assistance will be limited to Rs. 1 lakh depending on the requirements of each project and resources, if any, with the borrower. The applicant will be required to bring as much amount as possible from his own resources to meet a portion of the outlay. This will form the margin. However, if the applicant has no resources of his own, no margin will be stipulated. But at the time of renewal of working capital, advance margin on a gradually enhanced scale will be imposed depending on the surplus of the preceding year.

It is stated that the loan, on a 9½% interest will normally be allowed for a maximum period of 10 years in the case of the State Bank and 7 years in the case of its subsidiaries. The instalment credit will, however, be upto a maximum of five years.

The financial assistance will be provided under the scheme for covering such activities as production of foodgrains and commercial crops including hybrid and high yielding varieties of seeds ; special farming activities such as poultry, dairy, fishery and orchards, horticulture, piggery, etc., and setting up and running of service units. The borrower should have land either in his own name or jointly with others. In addition the farm graduate should have a worthwhile project for agricultural development, have requisite technical ability to run the farm and be capable of taking up new ventures with a spirit of determination. In exceptional cases, loans may be granted for the purchase of land also. The loanee will be required to insure agricultural machinery and implements against usual risks with a company approved by the bank. The insurance policy will remain in the custody of the bank. Crops will also be insured if that facility becomes available. The proposals for introducing crop insurance on the lines as it is being done in most of the developed agricultural economies have come before the government from time to time and a decision in this respect was taken some time back and will be implemented soon.

The aim underlying the above scheme introduced by the State Bank of India is to assist technically qualified persons. It is likely that the bank shall arrange for initial scrutiny and certification to ensure soundness and success of the scheme. The scheme can be emulated by the other nationalized banks on the pattern of SBI and its subsidiaries. The importance of such types of the schemes lies in assisting the young people financially to let them take up their own independent professions. The problem of growing unemployment in the educated class throughout the country can to a certain extent be solved in this way. Banking assistance made available to the students shall create in them the quality of enterprise and enable them to bear the risks and to establish their own works for earning the livelihood and attaining economic prosperity.

Response to Schemes

The various schemes announced by the nationalized banks seem to have inspired proper response of the common people. In this connection experiences of some of the prominent banks can be appraised.

The United Commercial Bank has experienced that its scheme for consumer loans for durable goods like carpets, furniture and other household equipment attracted "scores of proposals" every day in the branches of the bank. Under the scheme, the bank extended credit for the full cost of consumer goods in certain cases subject to a minimum of Rs. 1,000 and a maximum of Rs. 5,000 repayable in 24 instalments. In other case sthe bank advanced loans upto 25% of the cost, all advances carrying an interest of 9½% with incidental charges levied at 2% on a flat rate basis. The condition stipulated for the loan is that the borrower should have a minimum income of Rs. 750 a month, a guarantor and the hypothecation of the article purchased. The bank shall arrange for insurance cover with no extra cost to the customer.

The Bank has issued instructions to all its branch managers who have been fully authorised to sanction the loans without reference to head office, to help the retail traders on the maintenance of their accounts and also to advise them on cheaper sources of purchase of their stocks. Where sales are seasonal, the banks will arrange for godown facilities for the dealers. The scheme shall cover a number of manufacturing lines besides the small traders.

It is observed from the historical progress of the Syndicate Bank that long before nationalization, the bank had set an example to prove by its services the concept of serving the masses. The bank has been constantly operating in rural areas right from its

inception in 1925. The bank has been assisting the professionals, students, farmers, small industrialists and entrepreneurs long before nationalization. It has before it now a scheme for intensification of the facilities.

According to Mr. T.A. Pai, the bank has plans for intensive agricultural financing in 14 districts of Mysore, five districts of Andhra Pradesh, two districts of Tamil Nadu, one district each in Kerala and the union territories of Goa and Delhi. The minimum loan to small industry is Rs 2,000. It has now set up a cell to specia lise in the electronics—an industry with great potentiality. Another industry of special interest from the point of banking assistance is fisheries, for mechanising boats, etc. This type of assistance has been extended to South Kanara. The biggest canning, freezing, cold storage and fish-meat unit in India has been assisted by the bank. The bank has concentrated now on developing fisheries in Ratnagiri, North Kanara, Goa, South Canara and Kerala.

The bank also lays special stress on self-employment rather than on jobs. It is going to embark on a new scheme of making loans without any margin to engineers to set up small scale industries, to professionals like dentists (upto Rs 10,000) and doctors to start practice.

From the above examples, it is evident that the nationalization of banks has put the whole banking industry into constructive channels for the rapid achievement of economic and social objectives underlying the recent economic policy of the government.

Specialized Export Banks

The government is examining how best the nationalization of the banks can be put to the best use and advantage of the common people by pressing them into service for the exporters. There is a plan to create special export cells in the nationalized banks for this purpose with the requisite infrastructure for facilitating availability of funds for export purposes. The government has further decided to pursue the idea of a Foreign Trade Bank with a wide support from banking circles recently. An expert Committee has been appointed to examine whether it would be desirable to set up a single institution to take over and run all the foreign branches of the public sector banks. The committee will also examine whether the proposed bank should handle the entire foreign exchange business of Indian banks and study the implications of such an arrangement on the profitability of these banks. The committee will be headed by Mr. S.B Kaji. Deputy General Manager of Bank of India and will include Mr. K.K. Banerjee of the State Bank of India and foreign exchange experts from five nationalized banks — the Central Bank, Bank of Baroda, United Commercial Bank, Indian Bank and Indian Overseas Bank.

The government has also recently decided to entrust the government treasury and allied business progressively to the 14 nationalized banks which is presently being handled by the State Bank of India and its seven subsidiaries, mainly at the places where the offices of the SBI and its subsidiaries are not located. A committee has also been constituted for the purpose of evolving a programme. This Committee is headed by Mr. K. K. Sheshadri of RBI as Chairman of the committee and includes representatives of the nationalized banks.

To ensure greater collaboration between the nationalized banks and the non-nationalized banks, the government is considering the proposal of constituting an Indian Banks Association.

Scheme to insure credit risk of banks

The major motive of the banking service has changed, after the nationalization, from profit to service of the masses. The loans are to be given now to the common people not judging the transactions from security point of view but from credit worthiness of the purposes and the enhancement of production. This is inherent in the risk which is required to be insured to assure running flow of funds and profitability of the nationalized banking services.

The proposal to introduce a comprehensive scheme of insurance to cover the credit risk incurred by nationalized banks in granting loans to small borrowers is under the consideration of the government.

The new scheme will replace the present credit guarantee scheme which provides such cover only for loans to small scale industries. A seven member committee headed by Mr. S.S. Shirlarkar, Additional Secretary in the Department of Economic Affairs, has been asked to formulate the new scheme.

The lending policies

The government does not appear to have announced any change so far in the policies of lending by the nationalized banks. The banks have to follow the professional cannons to exercise financial discipline on the borrowers to ensure efficient functioning of projects. The performance of the banks shall be judged not only on the basis of the size and aggregate of loans advanced but also on the numbe rof accounts held by the banks. However the government has decided to allocate a number of contiguous districts to one 'Leader Bank' in the area. The 'Leader Bank' would conduct surveys in its areas and help other banks to strengthen themselves in meeting the requirements of the districts.

The "Leader Bank" coneept has been suggested by the Committee of Custodians at the instance of the Reserve Bank. The scheme envisages that one of the 14 nationalised banks, which has the largest number of branches in a particular district, will co-ordinate the spread of banking network of all banks in that district. The bank, with the largest number of branches is better acqainted with the local conditions than any other bank and therefore can advise other banks to locate their branches in such a way as to avoid wastage of resources and duplication.

Efforts to mobilize savings

The government has directed the nationalized banks "to mobilize resources from all parts of the country and from all sections of the people ranging from the affluent businessmen to the harassed house wives."

The above statement of the Prime Minister depicts the anxiety of the government to mobilize the savings of the common people which can best sbe put into liquid position and can be used for investment purposes, for enhancing the social reproduction. As the people in the urban and rural areas with meagre means of earning do not save anything, it would be difficult to form saving habits till they get enough incentives. The people mostly having such meagre means of living are the labouring class, self-employed or in employment of others, on daily wages bases. Their daily living is quite a sorrowful affair; whatever they earn in a day they spend it the same day or save the little amount to be utilised the next day. Their main item for recreation is the cinema at the end of the week or a drink in their own social circles which consumes their savings. If the banks can assure these people who form the majority in the economcially backward areas, the withdrawal of their savings without much difficulty or can render them services of procuring cinema tickets or the drinking liquid by issuing chits or procuring such other via media, an incentive could be given for inculcating a saving sense in these people. On some experimental basis the programme of giving such incentive to these people can be taken up to promote the habit of saving.

The approach made by the syndicate bank to mobilize the savings is quite exemplary and may be followed by other nationalized banks to plan the mobilization of common-men's savings. In this connection it will be necessary to quote the following paragraphs of Shri T.A. Pai's recent article which highlights the various schemes launched by the Syndicate Bank Before and after nationalization.

As early as 1928, the Bank drew up a special scheme intended for the mobilisation of the deposits of the small man—the

Pigmy Deposit. This has grown over the years and is the most popular deposit scheme today. Under this, the Bank has achieved what appeared impossible in deposit mobilisation in rural and semi-urban areas. The Bank accepts even a small amount of 25 paise a day as deposit and this is collected every day by its agents at the doors of the depositors.

The Bank has over two lakhs of Pigmy Deposit accounts today from the lower-middle classes, the workers in factories, casual labourers, agriculturists and professional classes. The scheme has enabled the Bank to reach the masses, and establish contact with small men. It has incidentally helped Branch Managers to understand the needs and problems of the middle classes. Since its inception, an estimated Rs. 100 crores have been collected under the scheme and returned to the savers. The annual collections under the scheme now average Rs. 6 crores. The Pigmy Deposit Scheme has helped the common man expand his business or achieve other chérished objectives like owning a house and educating a child.

The Syndicate Bank has introduced many innovations and experiments towards this end. For example, the Bank launched two successful campaigns in 1964 and 1967, as a result of which it has been able to make over 75,000 children bank-minded. It turned out that children could be the best medium for carrying the message. During the campaigns among children, many parents and teachers also opened accounts.

Again, the Bank recognied the crucial importance of women in tapping the vast potential for saving in the country. In fact they have been the agencies of the kind of social security schemes the State has taken over in recent years. For centuries women in this country have been the repositories of the savings of the family. They have saved to meet unforeseen contingencies to which they may be exposed, like sikness, unemployment, education and old age.

Unfortunately gold has had a powerful effect on the minds of people. People failed to realise that Rs. 10,000 saved in the form of gold was a dead asset while Rs. 10,000 in the form of a bank deposit would become Rs. 13,750 at the end of five years compounded annually at five per cent interest. What is more hurting is that people pay a high rate of interest when they borrow on the security of gold and jewellery into which they have converted their savings.

With a view to making women aware of these implications, the Syndicate Bank started an all-women's branch in Bangalore in

1964 followed by similar branches in Delhi, Hyderabad, Madras, Trivandrum, Mysore and Bombay. Besides savings, counters at many other branches were entrusted to the care of women employees. The idea was to encourage women, particularly from the lower economic strata, like domestic servants, vegetable vendors and fishmongers, to discuss their problems with the Bank's staff. It has worked very well and recently the Bank celebrated a women's savings week.

With growing incomes among large sections of society, the Bank's experience showed that if deposits are to be mobilised in an effective way, the concept of mass banking has to be recognised and respected. A few vegetable vendors of Belgaum, whom the Bank had initiated into the habit of saving, found their deposits grew to over Rs. 2,000 in two years. An itinerant shoemaker of Belgaum saved as much as Rs. 18,000 in a few years.

This shows that in a section of our society the propensity to consume does not develop correspondingly with the growth in income. This provides a great potential for mobilising these resources from all sections of society.

Another study by the Bank revealed that an appeal to save was of no avail in itself unless there was motivation for saving. In the district of South Kanara in Mysore, a powerful motivation was children's education even among the lower middle class families.

The Bank has been introducing novel schemes every year to attract savings. It now offers social security deposits, retirement security certificates, children's welfare security certificates, estate duty deposit schemes, and automatic extension deposits. The idea behind all this is to serve the individual needs of various types of customers.

Banking Department in the Finance Ministry

The Government has created a new Department of Banking in the Finance Ministry to be headed by Shri A Baksi as Secretary. The aim behind creating the new department is to ensure quick implementation of the economic policy programmes of the Govt. to achieve its objectives. Shri A. Baksi has been the Vice-Chairman of the Industrial Development Bank of India, and the whole-time Ex-Chairman and also a Director on the Board of the Industrial Finance Corporation of India. With his vast experience and close association with the banking industry he is back to Ministry of Finance.

Findings of the Study Group of National Credit Council

The Study Group appointed by the National Credit Council to go into the question of building up an appropriate organizational framework for the implementation of social objectives submitted its Report on 22nd October, 1969 whose main findings and recommendations were as under :

The group examined the relative strength and weakness of the commercial banks and the co-operative credit system. It studied in detail the uneven area-wise distribution of credit and banking facilities in different regions and within parts of the same region. The problem of uneven distribution of institutional credit to different economic sectors and the virtual non-availability of institutional credit to certain types of borrowers, particularly small borrowers like artisans, fishermen, small farmers and other weaker sections of the community, has been high-lighted.

After examining the nature and extent of credit gaps and the stability of the banking system to meet them, the group has suggested an immediate programme of action, with the district as a basis of an integrated plan. It has also suggested the creation of the necessary apparatus for this purpose, both at the district and all-India level. For this purpose the group has suggested the setting up of a specialized department of credit planning in the Reserve Bank, and has outlined the special responsibilities of the nationalised banks in providing the necessary leadership in this regard.

The bank credit is concentrated in major cities, with Bombay and Calcutta alone accounting for 32 per cent of deposits and 51 per cent of bank credits. Excluding Bombay and Calcutta from Maharashtra and West Bengal respectively, the share of these States in total bank credit shows a steep decline from 32 per cent to 3 per cent for Maharashtra and from 23 per cent to less than one per cent for West Bengal. There is a flow of resources from the smaller to the larger population centres and from the rural to the urban centres. The credit deposit ratio was as high as 89 per cent in centres with population above 10 lakhs and showed a declining trend in lower population groups with only 41 per cent for centres in the population group of less than 10,000. The group has suggested that the Reserve Bank should take appropriate steps in this regard. The per capita bank credit for the country as a whole was Rs. 54 and per capita deposits Rs. 78. The per capita deposits are nearly 17 per cent of the per capita income of the country.

There are wide disparities in the per capita deposit and per capita credit as between different regions. The per capita credit

is less than Re 1 in as many as 63 districts as against a national average for credit deposit ratio of 69 per cent. Out of 336 districts in the Indian Union, commercial bank offices did not exist in 13 districts up to the end of 1967. The average population served by a bank office ranged between 1 lakh and 2 lakhs in as many as 89 districts and it was above 2 lakhs in 88 districts. Over the last few years the number of borrowing accounts of the commercial banks declined by 22,000 from 10.8 lakhs in April 1961 to 10.6 lakhs in March 1967. It is the contention of the study group that banks have not succeeded in making credit facilities to a wider section of the population despite an increase in their resources.

Apart from uneven distribution of credit to the major sectors of the economy, the credit extended by commercial banks was not widely dispersed and there were credit gaps particularly in the case of small borrowers. In the case of commercial banks for instance 81 per cent of the total borrowing accounts are currently for amounts up to Rs. 10,000 but they account for less than 4 per cent of the total bank credit. On the other hand only 437 accounts out of more than a million claim as much as 23 per cent of total bank credit. From the study it appears that small banks cater to the needs of the small borrowers to a larger extent than the bigger banks.

The non-availability of institutional credit to the small artisan has forced the latter to seek the mahajans who charge interest at the rate of 35 per cent. This in fact is in the case of the handloom weavers in Tanda (U.P.) Hawkers borrowed money from money lenders on a day-to-day basis at fantastic rates of interest—Rs. 20 borrowed in the morning were repaid in the evening with an interest of Rs 2—which worked out to a rate of interest more than 3,600 per cent per annum. The report suggests that credit problems of small farmers needed special attention and urgent solution because of the fact that large numbers are involved and there is apprehension that the new agricultural strategy may aggravate the economic disparity already prevalent in some parts of the country. The group, therefore, suggests that individual banks should evolve their own schemes to help this class and that the criterion of viability should not be judged from the land he owns or cultivates but by his character and his progressiveness.

The group has recommended that the district should be the lowest unit for the adoption of an area of approach to evolve plans and programmes for the development of banking and credit structure. The leading part in this, the group says, will have to be taken by the commercial banks, central co-operative banks and land development banks. In each district one or two nationalised banks, in addition to the State Bank, should take a leading part in this matter.

Nationalized Banks' Structure

Union Government, in consultation with the Reserve Bank, is formulating a detailed scheme providing for certain structural changes, including the constitution of Boards of Directors for the 14 nationalised commercial banks. A major feature of the scheme is likely to be the removal of the dominance of big business interests in the Boards of Directors.

The Boards of Directors to be constituted soon after the formalization of the scheme by the Government will be nominated bodies. Each Board would consist of about a dozen of persons representing various interests including depositors, workers and artisans, and employees of the bank. The Reserve Bank will have one representative of each of the 14 Boards. The scheme is expected to provide for safeguards in regard to the functioning of the Boards.

Co-ordination Forum for Banks

The Government is expected to set up a "forum of co-ordination" for the nationalized banks with a series of meetings from November 1, 1969.

The Reserve Bank Governor, Mr L. K. Jha, is to hold a series of meetings with the custodians of these banks and the chairman of the State Bank of India to discuss the methods of co-ordination between them.

The co-ordination will cover matters of 'common interest' and working. The forum will be a body of the nationalized banks, including the State Bank.

A seven-member committee has been set up under the chairmanship of the Additional Secretary, Mr. S. S. Shiralkar to formulate credit guarantee scheme as announced by the Prime Minister in her first meeting with the custodians of the nationalized banks. At present the credit guarantee scheme covers the loans to small scale industries but now it is being sought to extend the scheme to artisans, craftsmen, small farmers or other petty borrowers from the banks.

Legislation will be brought, if necessary, in Parliament to put the scheme on a statutory footing.

THE BANKING POLICY STRATEGY

the Union Government has nominated several Committees besides the Banking Commission for evolving a general banking

policy framework for the guidance of the nationalized banks so as to carry their operations to meet the requirements of the economic development of the country in both the urban and rural areas.

The Banking system in India is now a mixed system in which both the private and public sectors are participating. Therefore the banking policy evolved now extends a cover over the private and public banking business to foster co-ordination and cooperation between the two. A new banking policy for the mixed system of the banking, where the public sector, with 28 nationalised banks, commands 85% of the banking business leaving the remainder to be handled by the private and the foreign banks whose operations are under strict watch and control of the central banking operations of the Reserve Bank of India, has to lay suitable directions for the banking business. The role of the indigenous bankers and the cooperative sector of the banking is required to be redefined to work out a cohesive and integrated banking policy. Care is to be taken while changing the directions of the banking business from the banked sector of the economy towards the non-banked sector that the all-round development of the economy is not impeded. For this purpose it would be essential that the banking facilities being enjoyed by the banked sector should continue and constant efforts made to change the character of the non-banked sector into the banked sector gradually and steadily. In this way banks shall continue rendering assistance to large industries, trade and commerce also, while meeting the requirements of agriculture and small industries on priority basis and in planned manner.

For the purposes of evolving a set of suggestions to arrive at a new banking policy the external and internal aspects of the banking industry are required to be reviewed so that inherent problems could be sorted out and coherent solution devised. In the external aspects the relationship of the banks with their customers can be studied whereas in the internal aspects a reformative change in the existing practices be considered for rendering desired services to the country. The external aspect can, again, be dealt with in two separate sectors of the economy i.e. the urban economy or the banked sector and the rural economy or the unbanked sector. But in the urban economy itself there have been sections of economic activity run by large number of persons where banking facilities have yet to be made available. Nevertheless, the banked sector of the urban economy has numerous problems which are required to be solved like those of the non-banked sector of the rural economy.

The banking business in urban sector is well organised as far as the banking operations are concerned but it requires a perfect

overhauling of the existing banking practices if the banking operations have to cover the non-banked sections i.e. the weaker and poorer sections of the urban economy. Towards this goal, approach has to be made from two angles viz. the existing borrowers and the prospective borrowers. As regards the existing borrowers, the various types of industries, the trades and commerce so far enjoying the bigger share of the banking facilities, have a number of problems relating to the security of loan applications, quick appraisal and sanctions, quick disbursement, relaxation on security requirements, etc. These problems of banks' relationship with the specialised customers are of crucial nature affecting the banking policy. These problems can be sorted out through an independent research unit, formed of banking experts, who will contact the borrowers by undertaking a sample study and call for detailed information on different aspects of their dealings in confidence. The borrowers can be asked to give their suggestions for solving their problems related to bank dealings. This information shall be analysed by the study team to arrive at concrete results which can be suggested to the government to be adopted for it banking policy. By doing so the government shall win over the confidence of the existing borrowers and shall be able to enjoy their cooperation while diverting the banking resources towards the non-banked sections of the society by curtailing the resources to be invested in the aleady developed sectors of the economy. The institutional finance being made available to finance the industry and other allied activities through the private as well as the government institutions can be liberally extended to cater their working capital requirements also for which they have always looked anxiously towards the banks. In this way, the problems of the existing borrowers in the urban economy can be solved through the medium of new efforts envisaged to be made as above.

To help the prospective borrowers in the urban economy, it is required that the banks should follow the practice of micro-planning, to allocate credit to different sections of the urban sector of the economy. Under the micro-plans the banking units in urban areas shall be having independently before them the annual plan of their operations clearly demarcating the targets fixed for mobilising the resources and utilising the available resources in the planned manner giving maximum satisfaction to all the sections of society. Such credit plans are required to be approved by the government so that these plans conform to the objectives of the general economic planning of the government.

The aforesaid micro-credit plans shall help in following the pursuit of balanced economic developement of different sections.

of the economy and assure availability of credit to the existing borrowers and prospective borrowers. The micro-credit plans shall result in checking up unreasonable and unwarranted drain of banking funds into the channels of concentration of monopoly. It shall minimise the gap between the exante and expost objectives of the banking policy of the government and help the government in locating the gap in planned achievement.

As regards the non-banked sector i.e. the rural economy, a sound credit policy is required to be followed to assure credit to agriculture and the small industry, village artisan, craftmanship and the small traders. Loans for personal purposes other than those for professional requirements have also to be provided to the villagers. Therefore, the demand for credit is lively to be larger in the rural sector. For this purpose, a definite departure in the existing practices of the banks has to be made for the reasons of prevailing conditions of the under-developed economy in village areas. In this connection, the mode of sanctioning the loan to villagers is of paramount importance so that the utilisation of the loan for the specific purposes can be assured and objectives of increased production of agriculture and other allied rural activities achieved. But proper utilisation of bank loans in rural areas cannot be assured as the lack of developed market renders difficult the availability of the agricultural inputs for which the banking credit is to be demanded. For this purpose it is essential. the loans to be granted to the farmers should be in commodity form rather than in liquid forms. Banking facility in this sector of economy can be of great use if only such types of loans are granted to the farmers and villagers. To make the scheme successful the governmental and cooperative resources will have to be mobilised to assure the villagers and the farmers commodity in which the loan has been sanctioned. This can be possible only if the nationalized banks or the government could make arrangements either with the block development offices or by running cooperative societies to supply specific items of agricultural inputs in which there is likelihood of shortage and price inflation owing to increased demand. If sucha an arrangement is made then the banks shall work in utmost coordination with these agencies. The commodity credit shall be granted to the villagers who will take delivery of the required goods direct from the agency by banker's loan slip. This type of credit in kind is definitely different to the credit granted in cash form as the utilisation of the loan is assured without much difficulty. This will also minimize the changes of black marketing by the dealers in case the distribution of the commodity is controlled by the banks, governmental agencies or the cooperative societies. The chances of price inflation in such commodities shall thus be curbed.

The above mode of credit shall be useful and convenient to the farmers also. This practice shall encourge the rural people to have their transactions through the banks for acquiring inputs, selling outputs, collecting sale proceeds and crediting the same in their accounts. The coopertive form of dealings through such devices can be developed invariably. The farmers shall not mind even if they are charged some nominal commission for rendering such services. A similar practice can also be followed while granting loans to villagers for purposes of acquiring the tools and implements or inputs to be used in small village industries. However, for granting loans to farmers for meeting their personal commitments, the normal banking practice can be followed.

In this way, a review of external aspects of banking industry reveals that the banks are required to play a dynamic role in the economic reconstruction of the nation to create economic equality by financing the economically depressed sections of the society in both urban and rural economy sectors. The new banking policy being worked at by the governmental committees should be framed to meet the requirements of the diverse economic aspects and to bunch the coordinated credit programme. For this purpose a procedural drill is required to be followed by the existing credit institutions which are granting various credit facilities to urban and rural borrowers of different magnitude, of industries and businesses so as to streamline their operations to meet the credit demands of the society in more rational and specialised manner. Thus, the new banking policy is expected to cover as far as possible the renovation of the whole existing credit system including banks, financial institutions, departmental agencies etc, rendering financial assistance and it should contemplate the necessary internal reform in the implementation machinery of the whole credit system of the country.

The need for carrying out an internal reformative change in the credit structure of the country specially the banks arises from the direction of money resources in the changed circumstances to new areas of operation. This change is required to be made for cutting short the long and delayed decision-making machinery through the decentralisation of managerial and loan sanctioning powers, to follow a cohesive and integrated loan policy, renovation of the security requirements in the changed conditions, and to adopt a more dynamic rate of interest policy, laying down suitable re-payment and dues realisation rules.

The decision-making procedures can be cut short if the local branch managers are empowered to grant loans upto certain specified relaxed limits and on relaxed conditions; prescribed application forms for borrowing purposes are filled in by the inspectors

of the banks themselves after personal verification of the borrowers record immediately on the requisition of the borrowers for the loan ; other formalities of executing some written documents by the borrowers as security for the loan are also relaxed by adopting the course of available alternatives at the discretion of the local officers of the banks ; the sanctioned credit is immediately disbursed to the borrowers. This type of change in the banking procedures shall be of material importance in toning up their efficiency and streamlining the technique of their operations, in both the urban and rural areas.

For a cohesive and integrated loan policy it is essential that the banks follow a planned course of action to meet the different requirements of the economy in a unified manner. This means that care should be taken in judging the borrowers requirements as genuine and that other available sources to meet these requirements have not been used by the borrowers so that it could easily be known if the other sources have been used by the borrowers and if so to what extent so that overlapping and misuse of the facility could be detected and avoided.

Renovation of the security requirements shall have to be made to propagate banking habits in the non-banked sections of the economy. In this connection banks are required to prescribe a small limit upto which a borrower of confidence can borrow on personal bonds of security. Even in those cases where the borrowers present some moveable or immoveable forms of security, the requirement of taking security should be fixed at such a limit that the borrowers may not feel discouraged for want of adequate security. For small borrowings banks can run 'pawn shops' on the pattern of USSR for meeting small personal requirements of the weaker sections of the society. These pawn shops can work with the banks in the same manner as the money-lenders are operating in the urban and rural areas with the difference that the reasonable rate of interest shall be payable instead of exorbitant interests being charged by the indigenous money lenders. These pawn shops shall lend money to the borrowers by accepting the gold or ornaments as the form of security. Similar other schemes can also be chalked out for the use and benefit of the small borrowers.

For encouraging banking habits in both urban and rural areas the rate of interest policy can be worked as to discourage concentrated monopoly borrowings and encourage decentralized borrowings. This can be done if a dynamic rate of interest policy is followed by the banks on lines to be decided by the government. However, some suggestions can be made to enable the government to work out the dynamic rate of

interest policy. The dynamic rate of interest policy for banking transactions shall cover two aspects i. e. the lending operations and the borrowing from the public in the shape of fixed deposits. As regards the lending operations, the bank shall charge different rates of interest from different borrowers. Lower rate of interest is to be charged on the amount lended if the utilisation of the loan amount is for personal requirements or for meeting the expenses of constructing new projects for profitable purposes. As soon as the new project goes into production and its products are marketed the rate of interest gradually increases in a phased manner and reaches the higher limit with the increased profitability of the borrowers. Higher rate of interest can be charged from the borrowers from the very beginging of the date of lending in case the borrower has utilised the money in the profitable projects giving immediate returns. For example, loans can be advanced to finance the purchase of goods or passenger carrier vehicles viz. motor turcks or buses and lorries, taxis etc. at a higher rate of interest say 20% p.a. on the vehicles as soon as they come on roads and start earning profits. The rate shall be compatible with the rate being charged by the money lenders or financing companies in the market.

For the purposes of lending the amount at a higher rate of interest the banks can accept the deposits from the public for a fixed period—even higher rates of interest being given to the depositors. In this way banks can easily discourage the fixed deposits being accepted by the non-banking companies from the general public at the rates of interest ranging between 10 to 15% p.a. or more. This loan can be utilised by the banks for lending at higher rates of interest. Such a scheme if adopted by the government shall result in many advantages to the depositors viz. depositors shall take such deposits for long periods; depositors shall have more confidence in banks than the private companies defrauding the depositors in most of the cases; people earning black money shall be able to deposit in the banks either in their own names or in the names of their relatives which shall be used for investment purposes and shall not have its inflationary effects upon the economy of the nation. On the other hand the profitability of the banks shall also increase by reaping the benefits of the gap between the rate of interest of borrowing deposits and lending the money for profitable investment purposes. Money in the hands of the public can be controlled more easily. Genuine borrowers can be promoted from such a rate of interest policy as the bogus borrowers or speculators may be discouraged. More needy sections of the economy shall be able to get money from banks on merit. (For details on the dynamic rate of interest policy see author's article "Problems of Industrial Finance—Plea for a Discriminatory rate of interest"—Southern Economist : 15.3.1969).

As regards the repayment of loans and moratorium, schedule in most of the cases is settled before the loans are sanctioned to the borrowers on expected profitability returns. In most of the cases, the profitability and inflow of cash accruals fails to work on expectations resulting into delay and defaults in repayment following recourse to legal action by the banks. To avoid such eventualities the repayment of the loan should be couched in flexible covenants under which the repayment may be deferred or met out prematurely as may be deemed convenient between the parties i.e. the banks and the borrowers. For this purpose it would be essential if the profit earning borrowers could be pursuaded by following a discriminating rate of interest to make premature repayments and by the concerns running into losses being given succour by rendering timely financial assistance at cheaper rate of interest which shall be compensated when the profitability of the person increases.

The above suggestions made to solve the internal problems of the banking organisation can perhaps be of some use to the government for determining its guidelines to evolve a dynamic workable banking policy. The main objective of giving the above suggestions is to help evolve a pattern of control by the government over the mixed banking system now made to work in the country with greater efficiency and durability so as to foster economic equality between the financially weaker and stronger sections of the society.

CHAPTER VII

BANKING SYSTEMS OF DIFFERENT COUNTRIES

The banking system in different countries can be studied under three main forms i.e. the banking system in 'capitalist economies', 'socialist economies' and the 'mixed economies'. There are developed and backward countries throughout the world following the above systems. The countries following mixed economic system are mostly less developed nations struggling to achieve rapid economic progress by following the 'best' underlying the two main systems—'capitalism' and 'socialism'. The structural settings of the banks in the capitalist and socialist nations, whether developed or less developed, is founded on their respective uniform principles. Before studying the banking systems of the prominent developed nations and a few less developed ones under the two main economic systems, it is necessary to acquaint the readers with the special features of the banking systems of the capitalist and socialist nations. The special features of the non-commited nations following mixed economies shall be evaluated while commenting on the case of the 'Mixed Banking System' in India.

Difference between the Banking Systems in 'Capitalist' Countries and 'Socialist' Countries.

Money is the creator of banking system. Money does not change its concept in capitalist or socialist nations; it carries all its properties of being medium of exchange, measure of value, store of value, means of deferred payment and so on. But the banking system, in the two forms of economies in capitalist and socialist nations, is changed in formation, organisation and practice.

The banking system in modern capitalist countries comprises a great number of banks, and other credit institutions which collect idle money—capital-savings of the population and use them to grant loans for a charge (at a profit) to traders, industrialists and individual households. These banks and credit institutions are controlled by private individuals called capitalists who use them for purposes of further accumulations. These banks help monopoly enterprises to serve the ends of their owners. In most of the countries these banks are authorisid to issue money (bank notes) and regulate the whole system of credit. These banks operate in

stock market (bonds market) besides capital market and render various other services for customers who are capitalists, traders, etc.

The role of banking system in socialist economies differs greatly from that of capitalist economies. Banking system is fully owned by the state whereas in capitalist countries it is mostly controlled and owned by few capitalists. In socialist economy, credit is planned and used to redistribute money resources in the economy, according to the requirements of social reproduction. The redistribution of money resources is effected by lending the idle portion of these resources to those who need them. Bank credit in socialist economy is organised and effected on the following principles : (a) It is planned and given by banks to finance measures provided for in the plans of the enterprises (b) crediting is direct, i.e. given by the state owned bank directly to the enterprise ; (c) credits must be repaid i.e. money received from the bank must be returned to the bank (d) credit is granted for a definite period, it must be returned on a set date with interest, the rate of which is determined by the state.

The savings of the population are collected (a) by savings banks which accept deposits from population (b) by issuing state bonds subscribed by the population.

An unimportant feature of credit system in socialist economies is the "consumers credit" known as mercantile credit, given by trading organizations to the population which lessens the pressure on the state banking system. It applies to purchases by the population of consumers goods such as clothes and domestic articles. The buyer pays for such items by instalments. The terms for the clearing of such credits are established by the government. Purchases are paid by monthly deductions from the wages.

In socialist societies all credit relations are based on the planned development of the economy. Credit operations are planned. State credit institutions execute credit plans. Planned development and utilization of credit is done in the interest of the society. Thus the credit system in a socialist economy is the total sum of the activities of the credit institutions comprising of state banks, savings banks and pawnshops. These credit institutions are state monopoly and state owned. They are operated in the interests of the people. The credit system is controlled and managed by the higher central organs of state power and state administration. The credit system reinforces and develops the socialist economy, to accelerate the building of socialism and to raise the material and cultural standard of the people. The credit system serves the society and furthers its progressive development.

Banking Systems

INDIA

The Indian banking system is comprised of indigenous money lending, commercial banking, cooperative banking and the nationalised banks. The indigenous system is still greatly practised which reminds one of the tradition being followed for centuries. The commercial banking sector which emerged with the beginning of the 19th century is representative of the English system of banking. The cooperative banking system was specially aimed at promoting cooperative movement in villages to finance rural requirements through cooperative societies. The reconstruction of the Imperial Bank of India into the State Bank of India and its subsidiaries has stepped in the public sector of the banking industry which now stands fully strengthened with the nationalization of the fourteen major commercial banks. The remaining commercial banks are those which have meagre resources commanding in aggregate 1/7th of the total banking business.

Nevertheless, the importance of the commercial banks which played a greater role in the development of trade, commerce and industry in India, cannot be overlooked. The commercial banks are constituted as exchange banks and the Indian joint stock banks, both being scheduled and non-scheduled banks. The exchange banks are mostly foreign (non-Indian), specializing in the finance of foreign trade, they also finance internal trade, do general banking business relating to financing of import and export trade which mostly involves the financing of the movement of goods between ports and up-country centres. Thus to bill the finance becomes the main activity of the business of these banks. Besides advancing loans to local manufacturers and merchants to obtain their exchange business, loans are made against the pledging of gold and silver ornaments for the purpose.

Indian joint stock banks have catered the urban credit requirements. The scheduled banks concentrate more in commercial and industrial finance while non-scheduled banks cater to the credit requirements for consumption purposes. Advances to borrowers on personal guarantees, security of bullion, real estate mortgages, etc. predominate in the case of non-scheduled joint stock banks.

Before independence, the commercial banking done by the joint stock banks was by way of loans, cash credits, and overdrafts. Bill discounting was no more than 3 to 4% of the total accommodation granted by the banks. Amongst the commercial

banks Imperial Bank of India (now the State Bank of India) occupied a leading position as the biggest bank. Amongst the commercial banks the medium and small sized banks were greater in number. These banks confined their business to towns and cities depriving the rural areas of banking facilities where the indigenous banking by moneylenders predominated till date.

Cooperative banking, however, supplements the work of indigenous banking institutions. These banks provide : first, one of the two main links (the other being the endorsing shroff) between the sophisticated institutions of the central money market and the credit needs of both the rural village and the smaller artisans of the towns. Attempts have been made in recent years to formalize relations between the provincial cooperative banks and the Reserve Bank to strengthen this link. *

Now the nucleus of cooperative banking is formed of the cooperative credit societies and the cooperative banks duly assisted by the Reserve Bank and the State Bank of India in coordination with the 'Appex' banks. These cooperatives do not do any commercial banking business like the Joint Stock banks.

The beginning of the nationalized banking in India dates back to the establishment of Imperial Bank of India by amalgamation of the three Presidency Banks in 1921. The new bank was recognised from the beginning as a semipublic institution with provision for a certain measure of control by the Government, for which it was to act as its main banker with free use of treasury funds. It was also expected to act as a bankers' bank, holding their cash balances, rediscounting their bills and assisting them in times of crises. It worked like a Central Banking Agency and at the same time retained its commercial banking business which it has inherited from the Presidency Banks. But this bank could not carry out the wish of the Government to play its role as purely an impartial public sector institution with its dual responsibilities conforming to and contrasting public and private interests. The Reserve Bank of India ultimately substituted the Central banking functions of the Imperial Bank of India and started its operations in April, 1935.

Originally constituted as a shareholders' bank on the model of leading foreign banks of the time, the Reserve Bank had to undergo nationalization through Reserve Bank (Transfer to Public Ownership) Act 1948 to meet the requirements of closer integra-

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tion between its policies and those of the Government. Reserve Bank of India operates now as the Central banking institution in India as does the Bank of England in Britain.

Reserve Bank of India has been empowered to regulate the banking business in India. Under the Banking Companies Act of 1949, it has been empowered to licence banks and their branches, and to conduct supervision and control over the banking institutions. Thus, since 1949, the number of Scheduled banks came down from 94 to 76. This reduction is attributed to the merger of the less viable banking units with the bigger ones and to a few liquidations between 1960 and 1964 : 17 scheduled banks had either merged with other units or were liquidated. On the other hand, the number of non-scheduled banks which was 526 in 1949 was reduced to only 80 by the end of 1964. The process of strengthening the banking structure through voluntary amalgamation and compulsory merger was speeded up in 1964. But one notable feature in 1964 and 1965 was that no bank was ordered by any court to be wound up although 12 non-scheduled banks went into voluntary liquidation.

With the above reduction in the number of banks, the expansion of branches took place 2,842 (1949) and 5,478 (1964). The branch expansion took place in the subsequent period speedily though it was confined mainly to urban areas.

With the expanding diversified banking needs of the economy, the functioning of the Reserve Bank has been adjusted to it so that it could successfully implement the programmes framed under the Five Year Plans.

To assist the Reserve Bank in this task the Imperial Bank of India was nationalized to work efficiently in the implementation of the Second Five Year Plan and carry out more successfully the directives of the Government's economic policy.

Thus, through the efforts of Reserve Bank of India and with the cooperation of State Bank of India, its subsidiaries and commercial banks, the banking system in India has played a dynamic role. It has changed with the changing times The number of bank offices has gone up from 4000 in 1951 to 6600 in 1966 ; deposits had increased by 3½ times — Rs. 908 crores to Rs. 3378 crores; bank credit had increased by fourfold—Rs. 626 crores to Rs. 2434 crores; the ratio of bank deposits to National Income increased from 9% to 15% and the ratio of bank credit from 6.3% to 11% in 1966. The banking employment increased at the rate of 8500 employees a year and stood at 1,55,000. The training facilities through banking institutions' own schools and colleges were provided to the employed staff to tone up efficiency. During the First

Five Year Plan the bank advances to industry and commerce stood at 34% to industry and 36% to commerce. These increased in March 1966 by 94.3% in industry but declined to 24.4% in commerce.

Though the banking in India developed by leaps and bounds, yet its net contribution to the priority sections of India's economy—agriculture and small scale industries—was very meagre and negligible. On this account the banking in India had to undergo further structural changes under the scheme of Social Control of banks enforced in December 1967, leading ultimately to the recent nationalization of the 14 major commercial banks.

With the nationalization of the 14 major commercial banks, the number of the public sector banks including the State Bank of India and its subsidiaries has increased to 22. The banking system in the mixed economy of the nation has entered into an era of mixed banking where both private and public banks are in operation irrespective of the fact that the nationalized banking now controls most of the banking business. Before nationalization of the 14 commercial banks the banking business was mainly controlled by these major fourteen banks and the public sector banks included only the State Bank of India and its subsidiaries which played no doubt an important role in handling the banking services but did not play the leading part. Now the tables have turned. Banking business has become the Government's most vested interest not only from the point of view of following a most effective monetary policy but also from the angle of rendering valuable banking services to the masses to achieve the objectives of the national planning.

The nationalization of the major commercial banks has thus given a new turn to the banking industry in India—to create a new history and mark the development of a new era where the banking resources are to be directed into investment channels the so far neglected sector of the Indian economy i. e. agriculture, the small scale industry and encourage the work of small men with meagre means of earning who combinedly make the masses of India.

The Government sources have compared the step of nationalization of commercial banks with the banking system of some of the developed nations of the world where partially banking industry was nationalized to render greater monetary control of the government and to strengthen the financial resources of public administrations. In the words of Prime Minister Mrs. Indira Gandhi, this comparison stands as under :

"This aspect of banking has always been a source of concern even in countries which do not profess socialism. Indeed, there are countries with a predominantly capitalist economy which have either thought fit to nationalize their banks or subject them to extremely vigorous surveillance. France found it necessary to nationalize four of the six large banks. The remaining two together have only 1/20th of all the banking assests in the country. Similarly in Italy, four out of the five big banks are in the State sector. In Sweden the Government acquired the capital of five banks which were amalgamated in 1950."

The above statement of the Prime Minister is of great economic significance and on the face of it suggests that the course of mixed economy being followed in India cannot be interpreted to mean that the nationalization of the major commerial banks is a step towards socialism or that it cannot be read to conclude that India has espoused socialism. Socialism cannot be

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Indian Mixed Banking System at a glance :

The scheduled banks in India, today, are of four categories : State Bank of India with its seven subsidiaries ; 15 foreign banks ; 14 nationalised banks and 36 banks which were not nationalised.

The State Bank of India with its seven subsidiaries has 27 per cent of the aggregate deposits of all the commercial banks in the country. Thus the deposits amounted to Rs 1,239 crores, 30 per cent of the branch offices and 33 per cent of the credit advanced. In terms of money, State Bank and its subsidiaries advanced Rs. 1,186 crores.

The 14 nationalised banks had 56 per cent of the deposits with a total of Rs. 2,632 crores. There were 4,133 brance offices or 50 per cent of all the branch offices of the commercial banks. The credit advanced was 51 per cent or Rs. 1,829 crores.

The 36 non-nationalised Indian scheduled banks had a total deposit of Rs. 296 crores or 6 per cent of the total deposits. They had 1,324 branch offices and advanced a credit of Rs. 197 crores.

The 15 foreign banks had Rs. 478 crores as deposits, 130 branch offices and had advanced Rs. 385 crores.

The 16 non-scheduled commercial banks had Rs. 28 crores of deposits and they had advanced Rs. 16 crores and had 216 branches.

The total deposits of the 89 banks were Rs. 4,673 crores, of which the nationalised banks had Rs. 2,632 crores. The Government, had already in the State Bank of India and its subsidiaries Rs. 1,239 crores.

The position now is, that the State Bank and its subsidiaries and the 14 nationalised banks have 83 per cent of the total deposits, 80 per cent of the branch offices and 84 per centof the total credits advanced.

More than half of the banking sector was represented by the nationalised banks while one-third of the same sector was represented by the State Bank of India and its subsidiaries.

With a total paid-up capital of just Rs. 28 crores, the nationalised banks were controlling more than Rs. 2,600 crores.

establised in any country merely by nationalizing the major part of the banking-industry; it only follows the spirit that is to be imbibed in the heart of every individual citizen to struggle for the achievement of economic equality and equalitarian social status which can indirectly be promoted through banking assistance by the uplifting of the downtrodden. Therefore the success of the banking system shall depend now upon the manner in which the nationalised banking sector operates in the commercial economics of the country.

The nationalization of banks in India has been greatly appreciated by many capitalist countries of the world in- cluding the U.K. It will be of interest to readers to have an account of the banking structure in some of the important developed and developing countries of the world which follows.

ENGLAND

The rise of Banking in England is dated to the seizure by Charles I in 1640 of the bullion deposited in the Tower of London by the city merchants. Though it was returned to them afterward, they deposited it for safety with the goldsmiths who not only did business in money changing, but were also allowed to take charge of rents and money on deposits from the country gentlemen, granting interest thereon. The goldsmiths had begun taking deposits in James I's reign but the development of their business dates from the Civil War They gave receipts for the money deposited, and those receipts known as goldsmith's notes, the earliest form of bank notes in England, circulated even more freely than coins; large transactions were carried out throughout as late as 1696. During the Protectorate, the goldsmiths were of assistance to the state in financing the government and after the Restoration, they became lenders to Charles II, receiving as much as 12% or over, and paying less than half that rate to their creditors whose deposits they used. In 16/2, came the suspension of exchequer payments, a declaration of national bankruptcy which brought ruin not only to the goldsmiths to whom the government owed £ 1,30,000 but also to their depositors.

The successful example of Dutch Banks, the demand for better security for deposits, a correspondingly safer form of paper currency than the Goldsmiths' notes, together with a lowering of the rates of interest (charged in spite of the still existing laws against usury), still further the political necessities of the Government in the matter of loans all these contributed to the demand for the establishment of a properly regulated bank, a banking system and the end of goldsmithy.

Three private banks, Guilds, Martin's and Hoar's which later carried on business in London, were descended from firms of goldsmiths. Smiths' Bank at Nottingham claims to have been founded in 1608; it was later amalgamated with the Union of London Bank, under the style of the Union of London and Smith's Bank. Other early banks, now amalgamated with other firms, were the Bristol Old Bank, 1750 and the Hull Old Bank, 1754.

The proposal for the foundation of the Bank of England came from William Paterson, Michael Godfrey and other London merchants in 1691. The foundation took place in 1694, by an Act of Parliament, the Charter being granted on 27th July for 12 years to the Governor and the Company of the Bank of England. The restoration of the coinage, the attempt to found a rival land bank and the Government's pressing need for money, led to the extension of the Bank's privileges and capital by the Acts of 1697 and 1709, especially in the strengthening of its monopoly, and interest was reduced to 6%. No bank whose members consisted of more than 6 was allowed in England to borrow or to take up money on its bills or notes payable on demand. This was thought to be sufficient protection against competition, as at that time no bank could, it was supposed, do business without the power of issuing notes.

No joint stock banks were, in fact, founded. The over-issue of notes by small country private banks and the constant failures led to the Act of 1826 which allowed joint stock banks i.e. of any number of partners and with the power of issuing notes ; but they were not allowed in London or within 65 mile radius. No notes were henceforth, until the First World War, allowed in England below £5. In 1833, joint stock banks without power to issue notes were allowed within 65m. radius. It may be noticed that the use of cheques had by this time begun to replace the use of notes. Finally, the Bank of England's notes were made legal tender.

In 1844, came Peel's great Bank Charter Act which confined the right of note issue to those banks which possessed this right before 1844: as each lapsed or became absorbed, the limit to the Bank of England was expanded to the extent of two-thirds of the lapsed issue. The note issuing power of English Banks is of little importance at present and the Bank of England's note is the only circulating note in England. In 1862 Companies with liability limited to the amount of their shares were allowed, and in 1879 unlimited companies formed before the Act of 1862 were allowed to adopt limited liability. Practically all the joint stock banks availed themselves of this facility.

The 19th century saw several crises in banking. The first, that of 1847, was the result of the speculation in railways and a

hazardous extension of credit. In October 1847, all advances on public securities were stopped and the bank rate was 8% at the end of the month, when the coin and bullion reserves with the Bank of England fell to a little over £1,500,000. The Bank Act was suspended on 25th and though no notes above the limit were issued, the panic ceased, but there had been serious failures of banks in Liverpool, Manchester, Nottingham and the West of England. Overexpansion of credit and a great depletion of banking reserves led to the panic of 1847, which continued even after the Bank Act was suspended on November 12, 1847. On this occasion, notes in excess of the limit were issued amounting to nearly £1,000 000 but the panic did not cease until the beginning of 1848.

In 1866 the panic was marked by the historic failure of Overend, Gurney & Co.; it is stated that £4,000,000 in gold and notes were withdrawn from the Bank of England in one day: the rate was raised to 10% and the reserve fell to less than £500,000. The Bank Act was suspended, but no excess issue virtually took place. The failure of the West of England Bank in 1878 caused great distress, but there was no general panic. In 1890, the failure of the great financial house of Baring resulted in a serious crisis. London had become the centre of money market of the world, and consequently had to bear an international as well as national strain. This fact was marked by the New York panic of 1907 and 1908 when gold importation to U.S.A. was conducted through London.

During the First World War period as the bulk of foreign trade finance was carried on by means of bills of exchange, the Govt. decided that it would be as well to let these instruments function as freely as possible. A scheme was therefore drawn up which set forth: (1) Bank of England would provide when required by acceptors, the funds necassary to pay all approved pre-moratorium bills at maturity; (2) acceptors would be under obligation to collect from clients all funds due to them, such funds to go towards repayment of advances; (3) the Bank of England would not claim repayment of any amounts not received by acceptors for a period of one year after the close of the war; (4) the Joint Stock banks, in order to induce new business, would arrange with the cooperation, if necessary, of the Bank of England and the Govt. to advance the amounts required by clients to pay these acceptances at maturity.

For some years before the First World War the amalgamation of banks had been growing on steadily. The advent of the war hastened it considerably, and in 1918, there emerged the Joint Stock Bank, Lloyds Bank, Midland Bank, National Provincial

Bank and Westminster Bank. In 1918 a Treasury Committee decided not to allow further amalgamation without the approval of the Government.

There was no crisis on the outbreak of Second World War. For experience in the First World War had taught what emergency measures were desirable in the way of financial and monetary policy Yet, there was nothing new in the powers of the Government taken under the Finance Bill of 1940 over persons and property which endangered money in any bank. Equally there was nothing done to endanger saving in any way.

However, the Bank of England was nationalized under the Bank of England (Nationalization) Act 1946 with the aim of bringing capital of the Bank of England into public ownership and the Banking system under further control and to make provisions respecting relations between the treasury, the Bank of England and other banks.

Under the Act, the whole of the Bank Stock was transferred to treasury nominees 3 months after the passing of the Act. The new Court of Directors consists of a Governor, Deputy Governor and 16 directors (8 fewer then previously), appointed by Crown. The Governor and Dy Governer hold office for 5 years, the directors for 4 years and all are eligible for re-appointment. The Treasury may give directions to the Bank from time to time but the control or management is by directors in accordance with the Charter.

In 1958, all the big five Banks of the United Kingdom who each have between 1000 and 2000 branches, acquired an interest in a hire purchase company. The only major amalgamation that has recently taken place is that of National Provincial and the Dist. Banks in 1962. Only 3 of the Scottish Banks have links with the 'big five' and in one case this does not amount to control (Lloyd Bank – 36% interest in National Commercial Bank of Scotland); the Royal Bank of Scotland owns 2 of the clearing banks (Clyn, Mills and William Decons)

UNITED STATES OF AMERICA

Banking system in the U.S.A., in general, was founded upon the English system, but it has developed distinctive features not found in most other countries. American banks are primarily Banks of deposit and credit and not of capital accommodation. In the early days of the republic the people opposed centralization of authority. Thus, the separate states retained among their sovereign powers the right to charter and supervise banks.

As the country grew, however, purely local banks failed to meet the needs of national and international trade ; and the right was granted to the Federal Govt. to charter banking institutions. Thus arose a dual system of State and federally chartered banks. The majority of the 14,186 American banks in 1956 were Unit banks under completely separate ownership and management. However, some States allow banks to operate Branch offices, and there are affiliated Banks under common ownership. This gives rise to the system of 'branch' and 'chain' banking.

The history of banking in U.S.A. is very interesting in its features. It embraces three periods, viz., free banking era, national banking era and free Reserve System. The rise of banking includes in the first instance a switch-over from the barter system to Land banks. The Land banks system is associated with the Colonial period.

During the Colonial period banking was carried on by commercial firms, and some thrift societies engaged in savings banking ; in Massachusetts an attempt was made to establish a land bank to capitalize land values as a basis of a currency. There was little actual money in circulation and debts were paid in furs, tobacco and other domestic products. What money there was included almost all kinds of European coins. Land banks issued Bills of Credit and paper notes; but these banks could not secure public confidence.

Immediately after the revolutionary war the various states chartered a number of banks; and private banking houses of trading and commercial firms began doing business. Some of them issued scrip money of purely local use and of varying values when offered in exchange for metallic coins or species.

This was the era of State banks in U.S. begun with the first Banks established in 1780 as the Bank of the State of Pennsylvania. These banks were of two classes i e. State and Public subscription banks. The latter were meant for note issuing and lending more than borrowing as there was no general surplus of wealth to enable people to deposit. Each bank possessed these banks.

The first Bank of national importance was founded when the U.S. Congress chartered the Bank of North America on 26th May 1781. It opened for business in Philadelphia in 1782. However, there was so much doubt as to the authority of Congress to grant bank charters that it secured a State Charter from Pennsylvania. This bank joined the National Banking System in 1863 and although there have been changes through mergers and consolidations, its corporate existence continues to this day.

The establishment of a national currency was an important part of Alexander Hamilton's plan for a financial system under the constitution of 1789. According to the first Bank of the U.S. it was chartered in February 1791 for a period of 20 years lasting until 4 March 1811. This bank was of Joint Stock nature founded on the model of the Bank of England intended to serve the Government and national banks. It began its business in Philadelphia. Other banks deposited with it. It issued circulating notes which were legal tender, discounted loans and helped the government in financing operations. When its charter was not renewed, the banking house and most of its assets were sold to Stephen Girard, who started the Girard Bank in Philadelphia. In 1816 the Second Bank of the United States was authorised and in 1819 the U.S. Supreme Court decided that federal government had constitutional powers to charter national banks. The 1816 charter expired in 1836; and, after continuing under a state charter for several years the Second Bank of the U.S. was liquidated in 1841.

The period from 1830 to 1863 was a chaotic one for banking. While the Banks in some states were soundly managed and supervised, those in others were purely speculative ventures for the issuing of currency. Paper money fluctuated mostly in value according to the bank of issue; and the business was severely hampered by the lack of a nationally accepted currency. To provide for financing the Federal Govt. during the Civil war, and to correct the organisation among State banking systems, Congress in the Banking Act, 1863 authorised a national banking system; and since that time State and Federally chartered banks have existed in the country. Today banks of both types offer the same services, and the regulatory measures applying to them are comparable.

This was the era of National Banking System which emerged by passing the National Bank Act (1863-64) and was the product of last history of U.S. Banking. The Act was passed in 1863 and was amended in 1864 to have uniform currency throughout American State. Preceding the passing of the Act, there were Suffolk system of Suffolk Bank of Massachusetts and Safety Fund System in New York Banks. These served well and were met by the provision of National Bank Act of 1863-64.

The provisions of the Act covered banks in existence, charters were issued to them for 20 years and for subsequent periods. Notes of National Bank were accepted as Govt. security deposited and legal tender. In 1865, 584, banks were covered under this Act whose number grew to 3602 in 1899. These banks maintained notes per value. The Act for the first time brought the national currency under federal control and made for centralisation of

banking. This system had reflected some defects which were demonstrated in the economic crisis of 1907. It lacked a strong central organisation: It was unable to deal with the money system of U.S. effectively; Various Commissions were appointed to avert such economic crisis as National Monetary Commission of 1908. These recommendations were in substance embodied in the Federal Reserve Act of 1913 It was the National Banking System that has made Federal Reserve System possible.

As the Congress expanded across the continent, problems arose in connection with supplying various sections of the country with money to meet seasonal needs. A satisfactory solution was not found until the Congress created the Federal Reserve System in 1915. Under the Federal Reserve System the process of Centralization in banking has been more effectively carried out than it could have been under the National Banking System. Since its establishment the services provided by the Federal Reserve Banks for the privately owned and operated banks of the country have proved of tremendous value. For example, it is estimated that 93% of all payments are made by Bank cheques; and without the national system for clearing cheques between Banks in widely separated cities, this transfer of fonds would be seriously hampered. The Federal Reserve Banks also hold the required reserves of member banks, averaging about 16.5 per cent on net demand deposits.

Because of the universal use of 'cheque' books' money and the system of fractional reserves, the American banks are able to expand their net deposits about 5 times through credit transactions. The Federal Reserve System controls inflationary expansion of the money supply through credit extension by increasing and decreasing the reserves requirements, by modifying rediscount rates for member banks; and by limiting the amount of reserves available to banks through the open market buying and selling government securities.

Another instrumentality of the Federal Government important in banking is the Federal Deposit Insurance Corporation—an Insurance fund which protects deposits in member banks upto $ 10.000 for each individual depositor. Created by Congress in 1933, it became operative in 1934. All national banks are required to be members, and State banks may voluntarily qualify for membership.

State Chartered banks which are not members of the Federal Reserve System receive services approximately to those of the Federal Reserves by means of voluntary 'correspondent' relationship for mutual advantages.

Banks of deposits carry an overall financial service for their customers. These commercial banks accept both savings and demand deposits and make loans to individuals and to business enterprises. They may provide trust services; have safe deposit departments and carry on other activities which cause them to be known as 'Department stores' of finance. Mutual savings banks—in 17 states—specialise in savings deposits and restrict their credit extensions largely to real estate mortgages.

In addition to the privately owned and operated banks, there are federal savings and loan associations under the supervision of the Federal Home Loan Bank System, and building and loan associations under State supervision which are share account institutions specializing in real estate mortgages; Federal Land Bank System ; Stock Exchange and investment banking houses.

Federal Reserve Bank Act ever since it has been 'in operation has influenced banking and monetary conditions in America to a greater extent than any previous measure. Though by this Banking Act of 1933 hereafter referred to, several important amendments were made to the Reserve Act designed to enlarge its scopein some respects and to restrict its operations in others.

The Federal Reserve Banks coordinated as they are with each other and under the control of one Central Board, fulfil the functions of Central Bank. They manage the national currency and exercise a powerful influence in the domain of credit.

While they are the bankers of other banks especially of the member banks, and also of the Government, yet they are owned by neither. At the same time, they have connection with the State, unlike any other banking organisation. The U.S. Govt. share in the appointment of their Directors as also in their profits. Their note issue was made legal tender, equally with the treasury notes, and the treasury at first instance under-took to pay their notes in gold on demand. Further, unlike other American banks, the FederalR eserve Banks are virtually exempt from Federal, State and local taxation.

The Federal Reserve system has made for unification of interest in banking in a way that National Bank System failed to do. Through their membership the National Banks have direct connection with the Federal Reserve Bank of the Distt. in which they are located. State Banks likewise can become shareholder of the Banks if they are not members and their interest is thereby secured. The advantage of such cooperation is further seen in the custody and use of reserves. Formerly, each Unit bank kept its own cash reserves, whether large or small, but under the new system they are required to maintain their reserves with a Federal Reserve Bank. Gold Reserve in this way is mobilised and will easily be available in times of emergency.

Facilities are provided by the Act for discounting and rediscounting commercial bills arising out of transactions in commerce and ariculture.

The new system has effected a greater uniformity in the matter of rates of discounts, than was ever possible under National Banking System. The Bank publishes official rate of discounts which is not compulsorily adopted by all the Banks in the State. In this way it is unlike the London Bank rate among English banks.

Unlike the English System, according to which the ratio of gold against the note issue is discretionary, the Federal Reserve Act requires the amount of gold held in reserve be not less than 40% of the issue. The regulation as regards the graduated tax chargeable on the deficit, should such arise, is somewhat on the same lines as is operative in German system.

The System saved Americans from economic consequences of World War I of 1914-18 and have been taken as justified the confidence which the American people have in soundness.

Under the System the currency is established on a sure foundation, as the bank note which passes from hand to hand is made the tender and the Govt. make itself responsible for payment.

The Federal Reserve Banks as the custodians of the nation's credit have a great trust committed to them which they cannot be accused of mis-managing. The Act has made provision for checking inflation and abuse of credit by requiring adequate reserves to be maintained and it can be said no inflationary period has occurred since the establishment of this System.

U.S.S.R.

The Soviet economy is a money using economy. In the early post-revolutionery years, the period of so called War communism, the attempt to operate a virtually money less economy resulted in failure. Therefore, banking system controlling the money operations is as much prevalent in U.S.S.R. as in other countries. The Banking system of U.S.S.R. is geared to the economic needs of the country following a credit planning done by the government.

The whole banking structure in U.S.S.R., is state-owned falling under the Ministry of Finance, known as 'control by the ruble' excercised by the State Bank of U.S.S.R. (the Gosbank) and by the special banks in their every day contact with the activity of economic enterprises.

Banks, in socialism, are considered a state mechanism essential for the control of production and trade, for the strengthening

of money circulation and the development of new socialist economy. In Russian credit system banks play important part. In the tzarist Russia large monopoly banks with Russian and foreign capital existed which controlled the country's economy. The state Bank was the first bank to be nationalized. After that all private commercial banks were nationalized. Banking was declared as state monopoly. The peoples Bank of the R.S.F.S.R. was organised. The Moscow Peoples Cooperative Bank was preserved and assigned the task of helping cooperative organizations. Later, this bank was amalgamated with the Peoples Bank of the R.S F.S.R. and became an independent cooperative branch of the latter. In 1918 alone this branch granted new loans. To help nationalized enterprises the Peoples Bank organised a loan and discount committee, in which representatives of economic and worker's organizations participated. The committee controlled the issue of loans and resources for production needs and also the withdrawal of money from current accounts.

At the end of 1921, the State Bank of R.S.F.S.R. was organised with the purpose of furthering the development of industry, agriculture and trade and to control money transactions and carry through other measures to secure sound money circulation.

To cope with the growing requirement for credit, the need was felt to establish more credit institutions as the State Bank was unable to perform this task. The specialized banks were established to meet this requirement during 1922-24. In 1922 the first to be organised were the consumers cooperative bank, abbreviated as Pokabank (in 1923 it was reorganised into the All Russia Cooperative Bank or Vsekobank); the commercial & industrial Bank or Prombank, the Ukranian Cooperative Bank, and the Russian Commercial Bank, or Roskombank, charged with developing foreign trade (reorganised in 1924 into U.S S.R Bank for foreign trade or Vneshtorgbank). Private mutual societies were also allowed to function. To develop agricultural and handicrafts permission was given in 1922 to organise credit and savings societies in the country side.

Mutual credit societies were also created which united small commodity producers in need of mutual credit. Their Capital consisted of membership fees and money deposits by the members of the cooperative, interest on granted loans, credits from banks and subsidies (from financial aid) from the State. These credit societies were organised in both towns as well as in country side known as town credit societies and agricultural credit Societies to assist the craftsman and artisan in towns and the peasant poorest in the rural areas respectively. The rich peasants were also in-

duced to participate in agricultural credit societies. The weak and poor households which joined credit cooperatives were granted a number of privileges—exemption from membership fees, reduced rates of interest, repayment in small instalments. The Moscow Central Agricultural Bank was organised in 1924 to give state credit to peasants. An agricultural bank was also organised in Ukraine. Local communal banks headed by the central communal bank were also founded.

By 1926, the credit system of the country had taken final shape. Banks issued long term and short-term loans. Paper credit (Circulation of Bills of Exchange) was legalized at that time. Banks issued credit against goods or bills of exchange. The discount of bills of exchange and operations with special current accounts, against the security of bills of exchange, kept the banks busy. Bank Resources consisted of (a) idle money paid into deposit and current accounts (b) funds obtained through the sale of shares. The bulk of the funds was used to credit state and cooperative enterprises and organizations This gave them an advantage in their struggle against private capital.

During the period 1925-29, the banking system was further organised and vitalized to meet the need of rapid industrialization. These resources were required to industrialize the country and collectivize the agriculture. To procure their resources and put them to the best possible use, the banks had to intensify their efforts in marshalling money resources and money accumulations of enterprises, organisations, institutions, public bodies and the pupulation; to channel them primarily into industrialization, to ensure that credits are distributed according to plan, primarily for developing heavy industry and collectovizing farms; to exercise financial control over production and trade; to accelerate the circulation of assets; to ensure that the strictest economy is observed and that unproductive expenditures are reduced. In these conditions the structure of bank was organised to segregate long-term from short-term credits and delimit the functions of individual banks more precisely so as to permit more efficient planning of credits.

Under the credit reform, State Bank became the supreme banking institution to credit all banks to control the use of credit in channelizing the financial resources in separate branches of economy in accordance with the credit policy of the state; to keep the idle funds of all other banks and also the funds of the unified U.S.S.R. state budget, of saving banks, state insurance bodies and social insurance funds. In this way, subordination of all the credit institutions to State Bank was an important organizational measure which integrated the credit system.

The functions of the various banks were demarcated. The State Bank was charged with short term credit institutions and crediting the credit institutions and vital fields of the economy procurement, transport, state owned trading enterprises and large industrial enterprises. Special lists were drawn up to show which cooperative organisations were to be credited by the State Bank, the Cooperative Bank (Vsekobank), the Ukranian bank and the Central Agricultural bank, Local state industry and trade enterprises were divided between the state Bank and Local communal banks. In addition short-term crediting, the specialized banks (Prombank, Vsekobank and communal bank) were made responsible for the long term crediting of the corresponding industries. To ensure stricter conformance to plan in the disposal of bank credits (considering that the paper credit system was preserved) it was necessary to maintain and develop the principle of issuing credits according to the production and financial plans of the enterprises and economic organisations. Special purpose loans were instituted for production needs, procurements of farm products, raw materials, and credit on goods in circulation.

The period of 1928-32 refers to the period underlying the first five year Plan in which the task of laying the foundation of socialism in Russia was completed. The parasitical classes had been abolished and the bases and sources for the exploitation of man by man had been rooted out. The credit system had to be adjusted further to suit to the new economic conditions. This brought the credit reform of 1930-32 in Russian banking system.

The new economic conditions were reflected in rapid development of socialist industry, large scale collective farming, State and cooperative trade, the higher level of planning and strengthening of the leading role of the U.S.S.R. State Bank, which made it necessary to reform the credit system.

Before the credit reform, payments between enterprises and economic organizations were effected in the main by means of bill of exchange, by-passing the banks. Commercial credit between enterprises was practised extensively. The banking system consisted of great number of links. All this made it difficult to use money according to plans. It interfered with the planning of credits, led to violations of cost-accounting principles resulted in complications of channels of credit movement and cash flow and obstructed development of socialist economy.

The credit reform meant to do away with the above complications. Commercial credit was replaced by direct bank credit, organised on the principles that credits were repayable,

were granted only for specified periods and specific purposes and only against values, as security. New and more rational forms of settlement (payments made through banks by written authorization) were introduced, all short-term crediting and clearing of accounts was assigned to the State Bank, while long-term credits and the financing of capital investments were administered by specialized banks, serving the individual branch of the economy.

According to the new system economic organizations were provided with working funds large enough to enable them to acquire the minimum stock of new materials and goods. Short list credit was made available for strictly defined purposes; to finance goods in transit, seasonal production processes, accumulate seasonal stocks of raw material, fuel finished goods and products and for other temporary needs. The economic organizations with their own working funds so granted, promoted personal responsibility in the use of these funds, drew a line between expenditures to be defrayed by their own funds of the enterprise and by credit funds, and created an incentive for the economic organizations and enterprises to preserve and increase their own funds i.e. to fulfil accumulation plans.

State Bank became disposer of short-term loans and the clearing centre in the country. With the merger in 1931 of all district agricultural credit socities into State Bank its branch expansion was achieved.

In 1932, four special long-term investment banks were organised again in 1932 the Prombank (industry), Torgbank (trade) and Selkhozbank (agriculture).

In 1957 Torgbank was closed and its functions were turned to the Salkhybank and Tsekombank. The existence of several long term parallel banks led to further reforms. The Selkhozbank and Communal banks were closed in 1959 and their functions were assumed by State Bank. The Prombank was renamed as Stroibank (Construction bank).

In this way the Soviet credit system was developed continuously by the main objective to serve the purpose of a socialist society, to operate according to plan and to promote the socialist economy. All credit institutions belong to State and are managed by the higher organs of state power and state administration. The principal form of credit is bank credit; Savings are mobilized through banks and redistributed according to plan; bank notes can be substituted for gold coins; and credit transactions (the issue of credit by banks to various enterprises) permit to effect payments without cash.

At present credit system is operated by U.S.S.R. State Bank, Vneshtorgbank, Stroibank, and State savings banks, and State pawnshops. U.S.S.R. State Bank is the only centre for the issue of currency, providing credit to all fields of national economy and is the centre for clearing accounts and the country exchequer. Vneshtorgbank provides credits for foreign trade and handles international accounts. The Stoibank finances capital investments of state enterprize and organisation in all fields of the economy. It also gives credits to building contractors.

WEST GERMANY

Banking in Germany has its rise in the founding of Hambug Giro Bank, 1619 continued for 250 years. It was in the nature of State Bank. Citizens and firms made their payments by drafts which were secured by deposits in silver bullion ; metallic money existed in the form of small coins, chiefly silver, served for small dealings.

The first Bank of Issue was Bank of Prussia of 1765 on the pattern of Bank of England. It worked as a State Institution and ceased operation in 1846. After which the Bank was constituted by an Act of 1849 to promote money circulation of the Community and utilise capital so as to encourage trade and industry. To this end the bank was empowered to discount bills and supply credit and loans upon adequate security, to issue notes and drafts, to receive and collect cheques and to transact generally the business of banking as then understood. The note issue was under State supervision. The notes were legal tender and circulated in neighbouring countries also.

This Bank continued working untill 1875 when it was reconstituted as Reichs Bank or Imperial Bank of Germany and its rights and obligations were increased by Reichs Bank Act, 1875.

After this in 1914 due to the changes an Act was passed to govern the bank.

The operations of the Bank are not governed by Act of 1924 as amended in 1926 and later Acts which laid down the lines of reconstruction after post-war inflation and gave it the privilege of note issue in Germany for a period of 50 years.

Government and Administration : It is governed now by its Board of Directors which consists of a President as Chairman and the

required number of members. The President is chosen by Reich Chancellor. There is also a Directors' Advisory Committee whose members are chosen by Reich Chancellor on the recommendations of the President. The President and members are chosen for 4 and 12 years respectively with one condition to retire at the age of 65 The Directors exercise main governing powers subject to Reich Chancellor, and direct in particular the Standard Discount and Credit Policy of the bank.

Functions : Bank is banker to German Government and is entrusted with its general banking business. It undertakes all receipts and payments and internal remittances on behalf of the State and by means of the banks transfer system, the collection of revenue throughout the Reich is generally facilitated. Treasury balances form the bank's total deposits. The temporary needs of the Govt. are met by Treasury bills which are rediscountable also.

Note Circulation : The exclusive right of note issue now belongs to the Reichs Bank. The issue, withdrawal, and cancellation of Reichs bank notes are controlled by the President of the Auditing Deptt. of Govt. as Commissioner. The Commissioner is empowered to satisfy himself at all times of correctness of the reserves held against the note issue. The daily return of notes in circulation and the cover provided to them should be brought to him for checking purposes. Bank notes of Reichs bank are of different denominations, have a large circulation and are legal tender for an unlimited amount. The bank was required to have 40% of reserves of gold and foreign currency of this 30% to be in gold, and the Reserve in foreign currency may include both notes and foreign bills. The remaining 60% had to be covered by discounted bills. Variation in this respect may be allowed by the unanimous decision of Directors and Central Committee. The rate of discount had to be at least 5 p.c. When the cover of 40% reserve is down, it may be varied accordingly.

Except the reserve it is also provided for the bank to maintain a special Reserve amounting to 40% of its deposit liabilities. This reserve may be in cheques on other banks, commercial bills, cash, having not more than 30 days to run.

Relations with other banks : The Advisory Committee representing shareholders is composed in a part of representatives of the leading banks in Germany and forms thereby a connecting link between them and the banks. It maintains uniform rate of all its offices. A large portion of Reichs bank bills come for rediscount from other banks. It does not allow rate of interest on deposits

and permits other banks to utilise the Clearing Houses facilities afforded by it.

It conducts ordinary banking business similar to other Central Banks of other countries. It discounts bills, makes advances against securities. It receives money on deposits and accepts security for safe custody. Through its wide ramification and branch system of 440 offices Discounting of bills is a special feature.

Other Banks

In addition to the Reichs bank which occupies the central position in the German Banking system, the other banks in the Reich may be divided into the following classes namely :

1. Banks of Federal States.
2. Joint Stock Banks
3. Private Banks
4. Cooperative Banks.
5. Savings Banks.

Banks of the Federal States : At the time when the Act of 1875 was passed, 32 banks established by State Charter were working as Banks of Issue. All these banks came nnder the requirement of 1875 Acts. If any banks do not accept the provisions of the Act. its activity is to be limited to the State of its origin. 28 Banks out of these have lost their rights of note issue and they continued as banks of deposits and discount. The law of 1899 imposed extra restrictions on the local Banks of Issue, bringing them to the Reichs bank's official rate when at 4% or higher. and allowing them only 1/4 of 1. p.c. latitude at all other times. In 1935 at the end the other four banks also renounced their note issue working. Reichs bank is exclusively rightful now.

Joint Stock Banks : It was after the middle of 19th century that Joint Stock banking began to be developed in Germany with the growing need of banking due to industrialization. The 1st Joint Stock Bank was founded in 1848 and it succeeded the private banking house of Schraffhause. Joint Stock Banks continued to be formed throughout the country both in Berlin and provincial towns. Among these banks some are recognised principal institutions as Deutsche Bank, Dresdner Bank etc. Among these Banks, Deutshe Bank is the largest single bank with branches important.

All these banks do a considerable business as banks of deposits and discount and also transact all sides of ordinary banking operations. Current A/cs are opened, moneys are remitted, securities and valuables are received for safe custody and foreign exchange transactions are engaged in. These banks act as brokers for their customers, attend to buying and selling stock on others behalf. For this they are recouped by earning full commission which constitutes an important source of income.

The importaht feature of the banks is that they accept deposits repayable within seven days, or a specific term of 3 months or longer. The larger proportion being time or fixed deposits, the banks invest in industrial concerns to a greater extent than they could otherwise do. In this way they become in many instances direct participants in industry which has always been a feature of German banking. It participates having elected Director, Board of Industries in Management. It watches the inside condition of industrial concern whether fit for showing the interest of the bank.

During recent years due to political or economic crises, losses were sustained in them, due to not lending to industry or participating to that extent as formerly. Their lending is now much more than before directed into State-controlled channels and to the financing of government projeets.

An important feature of the Reichs bank is the clearing system (Giro Verkchr); a debt to a customer of the bank can be paid by paying the money at any of the numerous branches; it will be without charge transferred to the credit of his account. It amounts to a money order business without expense, and serves as a substitute for cheques, which are not used to the same extent as in England.

The private and Joint stock banks in Germany are chiefly engaged in financing the country's trade and industries and important banks. such as the Deutsche Bank took a prominent place before the Second World War in foreign and international finances. The German banks are led by the "Four D Banks"—from the initial letter of their names-viz. The Deutsche, the Discontigesellschiaft, the Dresdner and the Darmstradter.

The three years' economic chaos in Germany after the end of the Second World War came to an end after 1948, not the least as a result of Erhard's monetary reform which enabled the Bundes bank to regain control of the financial mechanism and to adopt the volume of credit to the needs of the economy. A strong monetary policy has been pursued by the Central Bank in recent

years in accordance with the changing cyclical requirements.

Since the end of the Second World War, the Banks in the Soviet Zone of Germany (G.D.R.) have been nationalized.

FRANCE

In 1716 the celebrated John Law established the first bank of issue, Banque Generale, styled in 1718 the Banque Royale, the King guaranteeing the notes. It ceased to exist in 1721. Banks with limited issues carried on business, and there were attempts to reconstruct Law's Bank. It was not till 1800 that Napoleon founded the Banque de France; at first its note issue was shared with departmental banks, which, however, were amalgamated with it in 1848, and it became the sole issuing bank in the country. It has now over 400 branches and does an enormous business in discounting bills and making advances. Its deposit business is not so large. The specie reserves of the Bank are very high, reaching before the Second World War £ 140,000,000 in gold and £ 40,000 000 in silver, against a note circulation of nearly £200,000,000. In 1930, the gold reserves of the Banque de France were phenomenal, being the second highest in the world, the U.S.A. occupying the first place The note issue is limited by law, but as long as the limit is not exceeded, it has not to hold any specific quantity of bullion against it. The bank can, to protect its gold reserves, pay notes in silver; the bank is therefore very steady. The Governor and two Deputy Governors are appointed by the State.

Other large banks in France include the Comtoird' Escompte, 1848; Credit Lyonnais, 1863; Societe Generale du Commerce, 1864; the Credit Foncier, 1852, chiefly deals in mortgages. There are a large number of Joint Stock banks. On December 2, 1945, a law was passed to nationalize the Banque de France and the 4 principal deposit banks; Credit Lyonnais, Societe Generale, Comptoir National d' Escompte and the Banque National pour le Commerce et I, Industrie. Deposit banking is less concentrated and centralized in France than it is in England. The largest six banks (which include those 4 which were nationalized) make up less than half the total value of the balance sheet of registered deposit banks in France. Both critics and supporters of French planning have pointed out that the nationalization measure has not been effective in promoting the plan's objectives, primarily because of the competition which results from the decentralization of banking. However in 1963, the banks were asked to give priority to industrial and commercial borrowers who respect the aims of the plan.

CANADA

The Canadian Banking system has developed on traditional lines.

The distinctive feature of banking in Canada is the small number of banks (8) and large number of their branches (5993 in 1963). The Canadian banking system has been built up along lines remarkably similar to its English counterpart but Canadian banking has never had direct connections with other commercial activities and at no time have any banks been predominantly engaged in financing any one field of activity. All the Canadian banks are almost entirely owned by residents. All the Canadian banks do a considerable foreign business. They have branches in the larger financial markets In recent years the development of security market in Canada haslimited the importance of these branches as they have originally established in order to handle the technical arrangments arising out of the foreign capital investment in Canada. and to arrange for the investments of the overseas reserves of monetary system. The provincial savings banks with a number of branches do a small amount of personal business.

There are some small independent Cooperative Savings banks and Credit bodies which with a few exceptions are all rural organisations. The Canadian banks have never been allowed to engage actively in mortgage operations. Since Canada was predominantly an agricultural country there was a pressing need for rural development of capital. This has been met by a group of trust and loan companies which have been financed from a variety of sources. They have issued securities both within Canada and abroad; have accepted long-term deposits from the numerous Canadian estates. Insurances companies have also been conducting banking business in Canada and abroad. There are, besides, the above, the security dealers responsible for the development of domestic security market. For dealing in industrial securities too, there is a well-organised security market.

Canadian banks have been notably sound in modern times, the last failure having been in 1923 and none occuring during the depression. The banks are privately owned (75 shares being in Canadian hands) but operate on charters granted by Parliament, and subject to revision every 10 years. An Inspector of Ministry of Finance inspects the books at least once a year. The banks issued their own notes until 1935. when the Bank of Canada took over this function. The latter established as a bank of issue in

1934, was privately owned at first and nationalised in 1938. The Bank of Canada must maintain a gold reserve equal to 25% of its note and deposit liability. The chartered banks are required to maintain a reserve by way of deposit with the Bank of Canada. Canadian currency was changed from sterling to a dollar basis in 1835 and has coins of 5, 10, 25 and 50 cents, also the now rare silver dollar. Bills are 1, 2, 5, 10, 20, 50 and 100 dollars, upto a size of 50,000. The chartered banks extend much short term credit to Canadain business and house-holders; their role is that of providing working capital rather than fixed capital. They have also a considerable business abroad with 123 branches. Large and small personal loan Companies are a mushroom and less pleasant growth of recent years. The eight chartered Banks in order of merits and size are : Royal Bank, Canadian Imperial Bank, Bank of Montreal (First to be established in 1817), Bank of Nova Scotia, Torento Dominion Bank, Banque Canadienne Nationale, Provincial Bank of Canada, Mercantile Bank of Canada.

The Bank of Canada was established with the same objective of doing the buisness of a Central Bank on the pattern of the Bank of England nnd carried on with subsequent amendments to suit the existing conditions. Banking in Canada witnesses a closely intergrated financial system marked by administiative intergration of the branch organisation of the chartered banks as the Bank of Canada, the Central coordinating agency maintaining the modern monetary system.

JAPAN

The banking business originated in Japan from the exchange and credit operations performed by merchants as it happened in their countries. The traditional Japanese Practices were transformed with a modern institutional system with the passage of the National Bank law in 1872. Most of the Japan's leading banking institutions were founded during the next thirty years- the Dai ichi- Bank in 1872, the Missmi Bank in 1876, the Yolohama Specia Bank in 1880, the Bank of Japan in 1882, the Mitsubishi and Sumitomo Bank in 1895, the Hypothec Bank of Japan in 1899 and the Industrial Bank of Japan in 1902. The beginnings of Expansion abroad were worked by the establishment of the Bank of Taiwan in 1899 and the Bank of Chosen in 1909.

After passing through the two successive wars in the phases of expansion, concentration and contraction the banking system of Japan emerged into well-organised system. The bank

of Japan is the central organ which operates as a bank of issue, bankers bank and banker for the government, responsible for general monetary and credit policies. Bank of Japan supervises the whole banking system and other financial institutions.

In Japan's banking system, general banking services are provided by 78 ordinary banks which has since increased to 82 in 1953 with a wide spread branch system for which the law makes no provision as to functions of the banks or the distribution of their activities. However, three of them (the Industrial Bank of Japan, the Hypothic Bank of Japan, and the Hokkaido colonial Bank) are institutions that have historically their own specialized fields of activities. Bank of Tokyo, plays a leading role in foreign exchange transactions which had been the specialized functions of its predecessor, the Yokohama Specie Bank.

The Bank of Tokyo is also one of the eight ordinary Banks that engage in both commercial and industrial financing on a nation-wide scale. The other banks in this class are the institutions that were formerly tied to the biggest Zainatsn group (the Teikoku, chiyoda, Orsaka Fuji Banks) (By the beginning of 1954 three of these banks had reverted to the use of their Prewar names. The Teikoku had again become the Mitsin Bank, the Chiyoda, the Mitsubishi Bank ; and the Orsaka, the Sumitomo Bank), Dai-ichi, Sanwa, and Kyowa banks. Of the remaining banks are privincial institutions, providing general banking services on a regional bases. Six banks are institutions that have traditionally operated as trust companies. In addition to these there are branches in Japan of tirdire foreign Commercial banks.

Among other financial institutions are organs that are wholly or to a large extent Govt-owned and that have specific functions assigned by law. These include the postal savings system, central institutions (the central cooperative Banks for Agriculture and Forestry; central Bank for commercial and Industrial cooperatives), Specialized Institutions (such as Japan Development Bank and export Import Bank of Japan ; the government agencies (such as trust Fund Bureau of Ministry of Finance) Finally, operative on traditional lines are the private credit divided into urban rural net-works by their links with above two central institutions, and mutual loan and banking banks. In addition, there are institutions and organs of non-banking type that are characteristics of modren capital market viz insurance companies, security dealers, stock exchanges.

SCOTLAND

The Bank of Scotland was founded in 1695 by Act of Parliament. It issued notes of £. 100 to £. 5, and in 1704 £. 1 notes. In 1727 a rival bank, the Royal Bank of Scotland, was granted a charter, and in 1746 the British Linen Bank.

The private local banks ceased to exist by 1844 and Scotland shows an example of a small number of large banks with a highly developed system of branches, the number of offices to population being very high. The use of notes, in business transactions, is very great. The Act of 1844 fixed a limit to the issue of notes, beyond which the banks must specie; the banks of issue, now 6 in number, carry on the whole business of the country. Scottish banking history is marked by the disastrous failures of the W. Banks of Scotland, 1857, which failed for nearly £. 3,000,000, and the City of Glasgow Bank, 1878, which resulted in total loss of over £. 6,000,000. Both of these were unlimited liability companies. The Scottish banks, in addition to these named are the Commercial, National, Union, North of Scotland and Cydesdale Banks.

IRELAND

The Irish banks have been conducted generally on the same principles as those in Scotland. Most of those which were established in 1844 are still in existence. This indicates the stability of Banking in Ireland. But the assistance given in much recent times by the existing banks to the general prosperity of the Ireland has been equally marked.

The Bank of Ireland was established in Dublin in 1873. Considerable priviliges were granted to it, for, after 1820, no bank with more than 6 partners was permitted to issue notes within a radius of 50 m. from Dublin; but after 1845, this restriction was removed, and arrangements for the circulation of notes is now virtually the same as those in force in Scotland.

There are nine principal banks in Ireland, 6 of which have the power of circulation. Their combined deposits total over £. 250,000,000 (1946). The Central Bank of Eire has the sole right in that country of issuing legal tender notes, and token coinage is issued by the Minister of Finance through the bank. The Central Bank, which was established as from 1 Feb, 1943, in accordance with an Act of 1942, replaced the Currency Commission which was set up under the Currency Act, 1927, and had been responsible inter alia for the regulation of the note issue.

AUSTRALIA AND NEW ZEALAND

In 1817 the Bank of New South Wales became the first Australian Bank. Unlike Canadian banks those in Australia made loans for the purchase of land, thus facilitating the spread of land ownership and speeding the growth of banking. In 1851, discovery of gold precipitated a great boom in banking. It was not until 1910 that treasury notes replaced those issued by the banks themselves. The Commonwealth Bank of Australia held the account of Federal government and the Acts of 1920 and 1924 transferred the note issue to it so that it effectively became the Central Bank.

The Bank Act of 1945 increased the powers of the Commonwealth Bank of Australia, empowering them for instance to require the commercial banks to keep deposits with it. Ultimate control of the Central Bank rests with Government whose Federal treasurer has power to issue directions to the Bank in the event of disagreement between it and the government.

In New Zealand a similar situation prevails and under an act of 1939, the Government has even more complete control of the Reserve Bank. The Minister of finance has powers to vary or suspend the minimum reserve of 25 per cent.

CEYLON

The system of banking in Ceylon is not very well developed. Amongst the banking institutions operating in the Island are mostly the branches of the foreign banks having their head offices abroad. The Bank of Ceylon is the major indigenous bank in the country which was established in 1939 as a state-aided bank—a portion of its shares being held by the Government. The beginning of the operations of the foreign banks in the country is linked with the advent of the British capital which was started to be invested in the Ceylonese plantation industry viz., coffee, tea and rubber estates. The foreign banks cater to the foreign trade requirements of the products of the plantation industries. Besides, all these banks engage in ordinary commercial banking business. They accept deposits, discount bills, deal in foreign exchange and make loans against acceptable security restricting themselves mainly to short term assets and self-liquidating loans. The establishment of the Bank of Ceylon was aimed at expansion of branch work in the whole country to grant credit facilities to meet the domestic and local requirements but it could not make much headway to open the banking facilities for the general public. These banks discri-

minate to make available credit facilities between on the one hand the Indian and Pakistani merchants and on the other hand the Ceylonese businessmen, creating dissatisfaction amongst the Ceylonese people. This position was improved to some extent with the establishment of the indigenous banks which compelled these banks to be sympathetic and considerate towards Ceylonese.

Being a backward economy, the Ceylonese economic development has been hampered due to the lack of an integrated banking system to solve the country's credit problems. It is embarrassing to find out that the reluctance on the part of banks to give advances against real estates is the great stumbling block in the process of Ceylon's economic development. The banks are prepared to lend against marketable securities, viz., Government bonds, share of Joint Stock Companies, stocks of goods awaiting sale, life insurance policies, movable properties and Trust and warehousing receipts, but these types of securities are scarce in the common. The banking therefore is unknown in several areas of the country.

To avoid the above difficulties the new Central Bank of Ceylon commenced operations on 28th August 1950. The Bank was vested with the powers of note-issue and the control of banking and credit with the intention of altering the entire system of creation of cash. The Bank is equipped with practically all the weapons of modern Central banking to regulate the national monetary policy through qualitative and quantitative credit control etc. The basic requirement for a developed banking system is the economic development of the nation. In an under-developed economy a well-established banking system is naturally not conceived; this is the case with banking in Ceylon.

REPUBLIC OF MALI (FORMERLY FRENCH SUDAN)

Banking system of Mali is an example how the new republics in Africa after attaining independence are approaching towards the unified economic development of their nations.

In all the nations under colonial system, the banking system has invariably remained guided on the pattern of the ruling country. Foreign money capital and foreign credit institutions predominate the banking system of these nations.

Mali was a colony of French. Its credit system was completely under the influence and control of French capital. All banks were controlled by French through special credit and finance organs ; Conseil National du credit, commission de controle des Banques and L' office des changes. Bank-notes circulating in the country were issued by the French Banque centrale

de l' abrique de l' Ouest. The issue of currency gave the bank huge profits. When a number of former French colonies regained their independence, this bank adapted to the new conditions and was renamed as Banque centrale des Etats de l' Afrique de l' Ouest. In Mali, money was issued by a special agency of that bank. This continued until July 1962.

Mali government carried out a money reform and introduced its own national monetary unit, The Mali Franc, equivalent to 0.0036 gram of pure gold. The reform virtually stopped the foreign currency. Currency is no longer issued by a foreign bank, but by the Banque de la Republicue du Mali which controls now the currency and the operations of all the banks in the nation. The above Bank is now the central bank of Mali which took over one-eighth of all the assets and liabilities of Banque centrals des Etats de l' Afrique de l' Ouest.

French Banks which had their branches in the Mali land do operate still. Their operations and activities are controlled and limited by the State Bank.

National Commercial Banks, such as the Banque populaire du Mali pour Le Developpment, have been founded for Marshalling internal and external resources for national economic development. Banque malienne de credit de deposists and the central Agricultural credit Bank are of recently origin to serve primarly agriculture and industry. However, the Mali government is increasingly inclined towards socialism and attempting to follow the soviet system of banking operations.

CUBA

Cuba's present credit system is formed of 15 major banks, 6 of which are the branches of foreign banks. In addition their 40 small locally owned banks and the Banoc De Los Colonos, which concentrates in the fields of advances to small and medium sugar planters. The New National Bank, started in 1950, is the lender of last resort and the government banker.

Banking System does not meet the requirements of Cuban farmers and small industrial establishments which depend mainly on mercantile credits for their short-term needs cooperatives in very few do exist to play their tiny role in Cuban credit system. The Government has recently started agricultural and industrial Development Banks to supplement the existing credit facilities working closely with National Bank.

In Cuban economy's credit system the collective saving institutions play important role. Then is postal savings system

besides pension and retirement funds, foreign and cuban owned insurance companies operate in the island.

Capitalization companies have become an important means of savings for the middle class, and the method for expanding home ownership. The market for private security issues is extrenely limited, but a very promising activation of the government bond market has taken place in the last few years.

PAKISTAN

Banking in Pakistan had a recent origin as this new nation emerged from the division of India in 1947. Before partition banking in the region, now forming the West Pakistan, was well developed. But with the migration of the Hindu population from these areas, these banks were closed down as the staff working therein were non-Muslims. As against 364 offices of the scheduled banks operating before partition only 62 remained open afterwards. The Imperial Bank of India has looked after the banking business in Pakistan before it was ultimately handed over to the National Bank of Pakistan which was a joint venture of the private and public resources.

Commercial banking in Pakistan was composed of Exchange Banks, the Indian Banks and the Pakistani Banks. Banking business in Pakistan is done on the same lines as in India. The cooperative banking system also made a headway in meeting the requirements of rural people especially the agriculturists. But the country is poverty-ridden, there is lack of banking habits in the people and absence of proper economic climate for advancement of the banking system on efficient lines. Irrespective of this fact Pakistan has made steady progress in commercial banking to stand on its own legs to meet the requirements of the nation in the existing state of it seconomy.

OTHER NATIONS

Banking system in the countries which remained as British Colonies or came under their influence is followed on the lines of the British pattern. The Banking system in the countries as narrated above is alike with the differences made to suit individual economic conditions in different nations. The Banking system in South Africa, Southern Rhodesia, Nyasaland and other British held Colonies is based on the English banking as in India, Pakistan, Ceylon, Burma, Malaysia and so on.

On the other side of the banking world there are socialist nations where the banking system stands completely nationalized and vested in the governments. In this fold are the nations

which are followers of Russia which include East Germany, Poland, Bulgaria, Czechoslovakia, Romania, Hungary, and so on where the pressing need of economic reform is being felt and the State-owned banking system has not been able to bring manifold financial adjustments in their economies.

Yugoslavia of course has been heading towards such economic reforms that too with the massive foreign credit help to establish a market socialism. Russia however, has not, for obvious reasons, liked such economic reform to be carried out in the nations of Eastern Europe.

The National Bank of Yugoslavia is a direct party to the economic reforms in Yugoslavia which establishes the fact that, to a great extent, the cooperation of the banking institutions in these reforms is predominantly essential. The economic reform in this country has followed by the high rate of inflation which set in the decontrol of pricing system benefiting the farmers, producers and bringing increase in their wages. Thus, banking finance, in investments, has increased. The experience of the Yuogoslav reforms depicts that the economic reform is to follow a suitable change in the nationalised banking sector.

APPENDIX I

TEST OF THE BANKING COMPANIES ORDINANCE 1969

1. Following is the text of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969.

An Ordinance to provide for the acquisition and transfer of the undertakings of certain banking companies in order to serve better the needs of development of the economy in conformity with national policy and objectives and for matters connected therewith or incidental thereto.

Whereas Parliament is not in session and the Vice-President acting as President is satisfied that circumstances exist which render it necessary for him to take immediate action :

Now, therefore, in exercise of the power conferred by clause (1) of article 123 of the Constitution, the Vice-President acting as President is pleased to promulgate the following Ordinance :

(1) This Ordinance may be called the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969.

(2) It shall come into force at once.

In this Ordinance, unless the context otherwise requires:—

(a) "banking company," does not include a foreign company within the meaning of Section 591 of the Companies Act. 1956 ;

(b) "existing bank" means a banking company specified in column 1 of the First Schedule, being a company the deposits of which as shown in the return as on the last Friday of June, 1969, furnished to the Reserve Bank under Section 27 of the Banking Regulation Act, 1949, were not less than rupees fifty crores;

(c) "corresponding new bank" in relation to an existing bank means the body corporate specified against such bank in column 2 of the First Schedule ;

(d) "custodian" means the custodian referred to, or appointed, under Section 10 ;

(e) "Prescribed" means prescribed by rules made under this Ordinance ;

(f) "Tribunal" means the Tribunal constituted under Sectino 7 ;

(g) Words and expressions used herein and not defined but defined in the Banking Regulation Act, 1949, have the meanings respectively assigned to them in that Act.

2. Transfer of the undertakings of existing banks

(1) On the commencement of this Ordinance, there shall be constituted such corresponding new banks as are specified in the First Schedule.

(2) The paid-up capital of every corresponding new bank constituted under sub-section (1) shall until any provision is made in this behalf in any scheme made under Section 13, be the paid-up capital of the corresponding existing bank.

(3) The entire capital of each corresponding new bank shall stand allotted to the Central Government.

(4) Every corresponding new bank shall establish a reserve fund to which shall be transferred the balance, if any, standing to the credit of the appropriate existing bank and such further sums if any as may be transferred in accordance with the provisions of Section 17 of the Banking Regulation Act, 1949.

(5) Every corresponding new bank shall be a body corporate with perpetual succession and a common seal and shall sue and be sued in its name.

(6) Every corresponding new bank shall carry on and transact the business of banking as defined in Clause (b) of Section 5 of the Banking Regulation Act, 1949, and may engage in one or more forms of business specified in sub-section (1) of Section 6 of that Act.

On the commencement of this Ordinance, the undertaking of every existing bank shall be transferred to and shall vest in the corresponding new bank.

(1) The undertaking of each existing bank shall be deemed to include all assets, rights, powers, authorities and privileges and all property movable and immovable, cash balances, reserve fund, investments and all other rights and interests arising out of such property as were immediately before the commencement of this Ordinance in the ownership, possession, power or control of the existing bank in relation to the undertaking, whether within or without India, and all books of accounts, registers, records and all other documents of whatever nature relating thereto and shall also be deemed to include all borrowings, liabilities and obligations of whatever kind then subsisting at the existing bank in relation to the undertaking.

(2) If, according to the laws of any country outside India, the provisions of this Ordinance by themselves are not effective to transfer or vest any asset or liability situated in that country which forms part of the undertaking of an existing bank to, or in, the corresponding new bank, the affairs of the existing bank in relation to such asset or liability shall, on and from the commencement of this Ordinance, stand entrusted to the chief executive officer for the time being of the corresponding new bank, and the chief executive officer may exercise all powers and do all such acts and things as may be exercised or done by the existing bank for the purpose of effectively winding up the affairs of that bank.

(3) The chief executive officer of the corresponding new bank shall, in excercise of the powers conferred on him by sub-section (2), take all such steps as may be required by the laws of any such country outside India for the purpose of effecting such transfer or vesting and in connection therewith may either himself or through any person authorized by him in this behalf realize any asset and discharge any liability of the existing bank.

(4) Notwithstanding anything contained in sub-section (2) on the commencement of this Ordinance no person shall make any claim or demand or take any proceeding in India against any existing bank or any person acting in its name or on its behalf except in so far as may be necessary for enforcing the provisions of this section or except in so far as it relates to any offence committed by such person.

(5) Unless otherwise expressly provided by this Ordinance all contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature subsisting or having effect immediately before the commencement of this Ordinance and to which the existing bank is a party or which are in favour of the existing bank shall be of as full force and effect against or in favour of the corresponding new bank, and may be enforced or acted upon as fully and effectively as if in the place of the existing bank the corresponding new bank had been a party thereto or as if they had been issued in favour of the corresponding new bank.

(6) If on the date of commencement of this Ordinance, any suit, appeal or other proceeding of whatever nature is pending by or against the existing bank, the same shall not abate, be discontinued or be, in any way, prejudicially affected by reason of the transfer of the undertaking of the existing bank or of anything contained in this Ordinance, but the suit, appeal or other proceeding may be continued, prosecuted and enforced by or against the corresponding new bank.

(1) The Central Government shall pay compensation to each existing bank for the acquisition of its undertaking and such compensation shall be determined in accordance with the principles specified in the Second Schedule and in the manner hereinafter set out, that is to say :—

(a) where the amount of compensation can be fixed by agreement, it shall be determined in accordance with such agreement.

(b) where no such agreement can be reached, the Central Government shall refer the matter to the Tribunal within a period of three months from the date on which the Central Government and the existing bank fail to reach an agreement regarding the amount of compensation.

(2) Notwithstanding that separate valuations are calculated under the principles specified in the Second Schedule in respect of the several matters referred to therein, the amount of compensation to be given shall be deemed to be a single compensation to be given for the undertaking as a whole.

(3) The amount of compensation determined in accordance with the foregoing provisions shall be paid to each existing bank in marketable Central Government securities and the form of such securities and the value thereof, computed with reference to their market value shall be such as the Central Government may, by notification in the Official Gazette, specify in this behalf.

Provided that where the amount of such compensation is not an exact multiple of the value of the Government security as so notified, the amount in excess of the nearest lower multiple of such value shall be paid by cheque drawn on the Reserve Bank.

(1) The Central Government may for the purpose of this Ordinance constitute a Tribunal which shall consist of a Chairman and two other members.

(2) The Chairman shall be a person who is or has been, a Judge of a High Court or of the Supreme Court, and of the two other members, one shall be a person who, in the opinion of the Central Government, has had experience of banking and the other shall be a person who is a Chartered Accountant within the meaning of the Chartered Accountants' Act, 1949.

(3) If, for any reason, a vacancy occurs in the office of the Chairman, or any other member of the Tribunal, the Central Government may fill the vacancy by appointing another person thereto in accordance with the provisions of sub-section (2) and

any proceeding may be continued before the Tribunal so constituted from the stage at which the vacancy had occurred.

(4) The Tribunal may for the purpose of determining any compensation payable under this Ordinance, choose one or more persons having special knowledge or experience of any relevant matter to assist in the determination of such compensation.

The Tribunal shall have the powers of a civil court, while trying a suit under the Code of Civil Procedure 1908, in respect of the following matters, namely :—

(a) summoning and enforcing the attendance of any person and examining him on oath;

(b) requiring the discovery and production of documents;

(c) receiving evidence and affidavits;

(d) issuing commissions for the examination of witnesses or documents.

(1) The Tribunal shall have power to regulate its own procedure.

(2) The Tribunal may hold the whole or any part of its inquiry in camera.

(3) Any clerical or arithmetical error in any order of the Tribunal or any error arising therein from an accidental slip or ommission may, at any time, be corrected by the Tribunal either by its own motion or on the application of any of the parties.

3. Management of corresponding new banks

(1) The head office of each corresponding new bank shall be at such place as the Central Government may, by notification in the Official Gazette, specify in this behalf, and, until any such place is so specified, shall be at the place at which the head office of the existing bank in relation to which it is a corresponding new bank is on the date of the commencement of this Ordinance located.

(2) The general superintendence and direction of the affairs and business of a corresponding new bank shall, until any provision to the contrary is made under any scheme under Section 13, be vested in a Custodian, who shall be the chief executive officer of that bank.

(3) The Chairman of the existing bank holding office as such immediately before the commencement of this Ordinance, shall be the Custodian of the corresponding new bank.

Provided that the Central Government may, if it is of opinion that it is necessary to do so, appoint any other person as the Custodian of a corresponding new bank.

(4) The Custodian shall hold office during the pleasure of the Central Government and shall receive the same emoluments as he was receiving immediatly before the commencement of this Ordinance.

(1) Every corresponding new bank shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may, after consultation with the Governor of the Reserve Bank, give.

(2) If any question arises whether a direction relates to a matter of policy involving public interest, it shall be referred to the Central Government and the decision of the Central Government thereon shall be final.

(1) There shall be an advisory Board to aid and advise the Custodian in the discharge of his duties.

Provided that the Advisory Board shall be dissolved on the constitution of a Board of Directors under Clause (b) of sub-section (2) of Section 13:

Provided further that the Central Government may, if it is of opinion that it is necessary to do so, dissolve the Advisory Board at any other time.

(2) The Advisory Board shall consist of such persons as the Central Government may, by notification in the Official Gazatte, appoint.

(1) The Central Government may, after consultation with the Reserve Bank, frame one or more schemes for carrying out the provisions of this Ordinance in relation to existing banks.

(2) In particular, and without prejudice to the generality of the foregoing powers, the said scheme may provide for all or any of the following matters, namely :—

(a) the capital structure of the corresponding new bank, so, however, that the paid-up capital of any such bank shall not be in excess of fifteen crores of rupees;

(b) the constitution of the Board of Directors, by whatever name called, of the corresponding new bank and all such matters in connection therewith or incidental thereto as the Central Government may consider to be necessary or expedient;

(c) the manner of the payment of the compensation to the share-holders of the existing bank;

(d) such incidental, consequential and supplemental matters as may be necessary to carry out the provisions of this Ordinance.

4. Miscellaneous

(1) Every corresponding new bank shall cause its books to be closed and balanced on the 31st day of December of each year and shall appoint, with the previous approval of the Reserve Bank, auditors for the audit of its accounts.

(2) The audited accounts of every corresponding new bank shall be verified and signed and transmitted to the Central Government and the Reserve Bank in such manner as may be prescribed.

(3) After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and all other matters for which provision is necessary under any law, or which are usually provided for by banking companies, a corresponding bank shall transfer the balance of profits to the Central Government.

(1) Every person holding office as Chairman, Managing or other Director of an existing bank, shall be deemed to have vacated office on the commencement of this Ordinance.

(2) Save as otherwise provided in sub-section (1) all officers and other employees of an existing bank shall become, on the commencement of this Ordinance officers or other employees of the corresponding new bank and shall hold their offices or services in that bank on the same terms and conditions and with the same rights to pension, gratuity and other matters as would have been admissible to them if the undertaking of the existing bank had not been transferred and vested in the corresponding new bank.

(3) For the persons who immediately before the commencement of this Ordinance were the trustees for any pension or provident fund constituted for the officers or other employees of an existing bank, these shall be substituted as trustees for such persons as the Central Government may, by general or special order, specify.

(4) Notwithstanding anything contained in the Industrial Disputes Act 1947, or in any other law for the time being in force, the transfer of the services of any officer or other employee from an existing bank to a corresponding new bank shall not entitle such officer or any other employee to any compensation under this Ordinance or any other law for the time being in force and no such claim shall be entertained by any court, tribunal or other authority.

(1) Every corresponding new bank shall observe except as otherwise required by law, the practices and usages customary among bankers, and, in particular, it shall not divulge any information relating to or to the affairs of its constituents except in circumstances in which it is, in accordance with law or practice and usage customary among bankers, necessary or appropriate for the corresponding new bank to divulge such information.

(2) Every Custodian of a corresponding new bank shall be deemed to be a public servant for the purpose of Chapter IX of the Indian Penal Code.

All acts done by the Custodian, acting in good faith, shall, notwithstanding any defect in his appointment or in the procedure, be valid.

Every Custodian of a corresponding new bank and every officer of the Central Government and of the Reserve Bank shall be indemnified by such bank against all losses and expenses incurred by him in or in relation to the discharge of his duties except such as have been caused by his own wilful act or default.

Any reference to any existing bank in any law, other than this Ordinance, or in any contract or other instrument shall be construed as a reference to the corresponding new bank in relation to it.

Notwithstanding anything contained in any other law for the time being in force, an existing bank shall, on such date as the Central Government may by notification in the Official Gazette specify in this behalf, stand dissolved.

(1) The Central Government may for the purpose of carrying out the provisions of this Ordinance may make such rules as it may think fit.

(2) In particular, and without prejudice to the generality of the foregoing powers, such rules may provide for all or any of the following matters, namely :—

(a) the manner in which the business of the Advisory Board shall be transacted and the procedure to be followed at the meetings thereof;

(b) fees and allowances which may be paid to members of the Advisory Board for attending any meetings of the Board or of any Committee that may be constituted by the Board ;

(c) the formation of any Committee whether of the Advisory Board or of the corresponding new bank and the delegation of powers and functions of such Committees ;

(d) any other matter which is required to be, or may be, prescribed.

(e) every rule made by the Central Government under this Ordinance shall be laid as soon as may be after it is made before each House of Parliament while it is in session for a total period of thirty days, which may be comprised in one session or in two successive sessions, and if, before the expiry of the session in which it is so laid or the session immediately following, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect as the case may be ; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

In the Banking Regulation Act, 1949—

(a) In sub-section (3) of Section 34-A, for the words "and any subsidiary bank", the words "a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, and any subsidiary bank" shall be substituted ;

(b) in sub-section (3) of Section 36-AD, for the words "and any subsidiary bank", the words "a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, and any subsidiary bank" shall be substituted ;

(c) in Section 51, for the words "or any other banking institution notified by the Central Government in this behalf", the words "or any corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, or any other banking institution notified by the Central Government in this behalf" shall be substituted.

If any difficulty arises in giving effect to the provisions of this Act, the Central Government may make such order, not inconsistent with the provisions of the Act, as may appear to it to be necessary for the purpose of removing the difficulty.

Existing bank :

Central Bank of India Limited
Bank of India Limited
Punjab National Bank Limited
Bank of Baroda Limited
United Commercial Bank Limited
Canara Bank Limited

United Bank of India Limited
Dena Bank Limited
Syndicate Bank Limited
Union Bank of India Limited
Allahabad Bank Limited
Indian Bank Limited
Bank of Maharashtra Limited
Indian Overseas Bank Limited

The First Schedule
(See Sections 2, 3 and 4)

Corresponding new bank :

Central Bank of India
Bank of India
Punjab National Bank
Bank of Baroda
United Commercial Bank
Canara Bank
United Bank of India
Dena Bank
Syndicate Bank
Union Bank of India
Allahabad Bank
Indian Bank
Bank of Maharashtra
Indian Overseas Bank

The Second Schedule
(See Section 6)

Principles of Compensation

1. The compensation to be paid by the Central Government to each existing bank in respect of the acquisition of the undertaking thereof shall be an amount equal to the sum total of the value of the assets of the existing bank as on the commencement of this Ordinance, calculated in accordance with the provisions of Part I less than sum total of the liabilities computed and obligations of the existing bank calculated in accordance with the provisions of Part II.

(Part I—Assets)

For the purpose of this Part "assets" means the total of the following :

(a) the amount of cash in hand and with the Reserve Bank and the State Bank of India (including foreign currency notes which shall be converted at the market rate of exchange) ;

(b) the amount of balances with any bank whether on deposit or currency account, and money at call on short notice, balances held outside India being converted at the market rate of exchange ; provided that any balances which are not realizable in full shall be deemed to be debts and valued accordingly ;

(c) the market value, as on the day immediately before the commencement of the Ordinance, of any securities, shares, debentures, bonds and other investments, held by the bank concerned.

Explanation—For the purpose of this clause :—

(i) securities of the Central and State Governments (other than the securities specified in sub-clause (ii) and (iii) of this Explanation) maturing for redemption within five years from the commencement of the Ordinance shall be valued at the face value or the market value, whichever is higher ;

(ii) securities of the Central Government, such as Post Office Certificates and Treasury Savings Deposit Certificates and any other securities or certificates issued or to be issued under the Small Savings Scheme of the Central Government, shall be valued at their face value or the encashable value as on the day immediately before the commencement of the Ordinance, whichever is higher ;

(iii) where the market value of any Government security such as the zamindari abolition bonds or other similar security in respect of which the principal is payable in instalments, is not ascertainable or is, for any reason, not considered as reflecting the fair value thereof or as otherwise appropriate, the security shall be valued at such an amount as is considered reasonable having regard to the instalments of principal and interest remaining to be paid, the period during which such instalments are payable, the yield of any security, issued by the Government to which the security pertains and having the same or approximately the same maturity, and other relevant factors ;

(iv) where the market value of any security, share, debenture, bond or other investment is not considered reasonable by reason of its having been affected by abnormal factors, the investment may be valued on the basis of its average value over any reasonable period ;

(v) where the market value of any security, share, debenture, bond or other investment is not ascertainable, only such value, if any, shall be taken into account as is considered reasonable, having regard to the financial position of the issuing concern, the dividend paid by it during the preceding five years and other relevant factors ;

(*d*) the amount of advances (including loans, cash credits, overdrafts, bills purchased and discounted) and other debts, whether secured or unsecured, to the extent to which they are reasonably considered recoverable having regard to the value of the security, if any, the operation on the account, the reported worth and responsibility of the borrower, the prospects of realization and other relevant considerations ;

(*e*) the value of any land or building :

(*f*) the total amount of the premia paid, in respect of all leasehold properties, reduced in the case of each such premium by an amount which bears to such premium the same proportion as the expired term of the lease, in respect of which such premium shall have been paid, bears to the total term of the lease ;

(*g*) the written down value as per books, or the realizable value, as may be considered reasonable, of all furniture, fixtures and fittings ;

(*h*) the market or realizable value, as may be appropriate of other assets appearing on the book of the bank, no value being allowed for capitalised expenses, such as share selling commission, organizational expenses and brokerage, losses incurred and similar other items.

(Part II—Liabilities)

For the purposes of this Part "liabilities" means the total amounts of all outside liabilities existing at the commencement of the Ordinance, and all contingent liabilities which the corresponding new bank may reasonably be expected to be required to meet out of its own reasources on or after the date of commencement of the Ordinance.

Certain Dividends Not To Be Taken Into Account

2. No separate compensations shall be payable for any profits or any dividend in respect of any period immediately preceding the commencemet of the Ordinance for which, in the ordinary course, profits would have been transferred or dividend declared after the commencement of the Ordinance.

APPENDIX II

The following are excerpts from the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970, showing changes in the Bank Nationalization Act of 1969 and July 19 Ordinance as given under Appendix I :—

Promulgated by the President in the Twenty-first Year of the Republic of India.

An Ordinance to provide for the acquisition and transfer of the undertakings of certain banking companies in order to serve better the needs of development of the economy in conformity with national policy and objectives and for matters connected therewith or incidental thereto.

Whereas Parliament is not in session and the President is satisfied that circumstances exist which render it necessary for him to take immediate action ;

Now, therefore, in exercise of the powers conferred by clause (1) of article 123 of the Constitution, the President is pleased to promulgate the following Ordinance :

CHAPTER I

Short title

This Ordinance may be called the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970.

The provisions of this Ordinance (except section 21, which shall come into force on the appointed day) shall be deemed to have come into force on the 19th day of July, 1969.

CHAPTER III

Payment of compensation

6(1) Every existing bank shall be given by the Central Government such compensation in respect of the transfer under section 4, to the corresponding new bank of the undertaking of the existing bank as is specified against each such bank in the Second Schedule.

(2) The amount of compensation referred to in sub-section (1) shall be given to every existing bank, at its option—

(*a*) in cash (to be paid by cheque drawn on the Reserve Bank) in three equal annual instalments, the amount of each instalment carrying interest at the rate of four per per cent per annum from the commencement of this Ordinance, or

(*b*) in saleable or otherwise transferable promissory notes or stock certificates of the Central Government issued and repayable at par and maturing at the end of—

(*i*) ten years from the commencement of this Ordinance and carrying interest from such commencement at the rate of four and a half per cent per annum, or

(*ii*) thirty years from the commencement of this Ordinance and carrying interest from such commencement at the rate of five and a half per cent per annum, or

(*c*) partly in cash (to be paid by cheque drawn on the Reserve Bank) and partly in such number of securities specified in item (*i*) or item (*ii*), or both, of clause (*b*) as may be required by the existing bank, or

(*d*) partly in such number of securities specified in item (*i*) of clause (*b*) and partly in such number of securities specified in item (*ii*) of that clause, as may be required by the existing bank.

(3) The first of the three equal annual instalments referred to in clause (*a*) of sub-section (2) shall be paid, and the securities referred to in clause (*b*) of that sub-section shall be issued, within sixty days from the date of receipt by the Central Government of the option referred to in that sub section, or where no such option has been exercised, from the latest date before which such option ought to have been exercised.

(4) The option referred to in sub-section (2) shall be exercised by every existing bank before the expiry of a period of three months from the appointed day (or within such further time, not exceeding three months, as the Central Government may, on the application of the existing bank, allow and the option so exercised shall be final and shall not be altered or rescinded after it has been exercised.

(5) Any existing bank which omits or fails to exercise the option referred to in sub-section (2), within the time specified in sub-section (4), shall be deemed to have opted for payment in securities specified in item (*i*) or clause (*b*) of sub-section (2).

(6) Notwithstanding anything contained in this section any existing bank may, before the expiry of three months from the appointed day (or within such further time, not exceeding three months, as the Central Government may, on the application of the existing bank, allow, make an application in writing to the Central Government for an interim payment of an amount equal to seventy-five per cent of the amount of the paid-up capital of such bank, as on the commencement of this Ordinance, indicating therein whether the payment is desired in cash or in securities specified in sub-section (2), or in both.

(7) The Central Government shall, within sixty days from the receipt of the application referred to in sub-section (6), make the interim payment to the existing bank in accordance with the option specified in such application.

(8) The interim payment made under sub-section (7) shall be set off against the total amount of the compensation payable to such existing bank under this Ordinance and the balance of the compensation remaining outstanding after such payment shall be given to the existing bank in accordance with the option exercised, or deemed to have been exercised, under sub-section (4) or sub-section (5), as the case may be :

Providing that where any part of the interim payment is obtained by an existing bank in cash, the payment so obtained shall be set off, in the first instance, against the first instalment of the cash payment referred to in sub-section (2), and in case the payment so obtained exceeds the amount of the first instalment, the excess amount shall be adjusted against the second instalment and the balance of such excess amount, if any, against the third instalment of the cash payment.

(9) Any payment purported to have been made to an existing bank under sub-section (3) of section 15 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, shall be deducted by the Central Government from the amount of the compensation due to such existing bank and the amount so deducted shall be paid by the Central Government to the corresponding new bank.

(8) Every corresponding new bank shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may, after consultation with the Governor of the Reserve Bank, give.

9(4) The Central Government may, after consultation with the Reserve Bank, make a scheme to amend or vary any scheme made under sub-section (1).

Chapter IV

7(2) The general superintendence, direction and management of the affairs and business of a corresponding new bank shall vest in a Board of Directors which shall be entitled to exercise all such powers and do all such acts and things as the corresponding new bank is authorised to exercise and do.

(3) (*a*) As soon as may be after the appointed day, the Central Government shall, in consultation with the Reserve Bank, constitute the first Board of Directors of a corresponding new bank consisting of not more than seven persons, to be appointed by the Central Government, and every Director so appointed shall hold office until the Board of Directors is constituted in accordance with the scheme made under section 9;

Provided that the Central Government may, if it is of opinion that it is necessary in the interests of the corresponding new bank so to do, remove a person from the membership of the first Board of Directors and appoint any other person in his place.

(*b*) Every member of the first Board of Directors (not being an officer of the Central Government or of the Reserve Bank) shall receive such remuneration as is equal to the remuneration which a member of the Board of Directors of the existing bank was entitled to receive immediately before the commencement of this Ordinance.

(4) Until the first Board of Directors is appointed by the Central Government under sub-section (3) the general superintendence, direction and management of the affairs and business of a corresponding new bank shall vest in a Custodian, who shall be the chief executive officer of that bank and may exercise all powers and do all acts and things as may be exercised or done by that bank.

(5) The Chairman of an existing bank holding office as such immediately before the commencement of this Ordinance, shall be the Custodian of the corresponding new bank and shall receive the same emoluments as he was receiving immediately before such commencement :

Provided that the Central Government may, if the Chairman of an existing bank declines to become, or to continue to function as a Custodian of the corresponding new bank, or, if it is of opinion that it is necessary in the interests of the corresponding new bank so to do, appoint any other person as the Custodian of a corresponding new bank and the Custodian so appointed shall receive such emoluments as the Central Government may specify in this behalf.

CHAPTER V

11. For the purpose of the income-tax Act, 1961, every corresponding new bank shall be deemed to be an Indian company and a company in which the public are substantially interested.

12(1) Every person holding office, immediately before the commencement of this Ordinance, as Chairman of an existing bank shall, if he becomes Custodian of the corresponding new bank, be deemed, on such commencement, to have vacated office as such Chairman.

Amendment of certain enactments

20(1) In the Banking Regulation Act, 1949,

(a) In Section 34A, in sub-section (3), for the words "and any subsidiary bank," the words, figures and brackets "a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970, and any subsidiary bank" shall be substituted ;

(b) In Section 36AD, in sub-section (3), for the words "and any subsidiary bank," the words, figures and brackets "a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970, and any subsidiary bank" shall be substituted;

(c) In section 51, for the words "or any other banking institution notified by the Central Government in this behalf," the words, figures and brackets "or any corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Trasfer of Undertakings) Ordinance, 1970, or any other banking institution notified by the Central Government in this behalf" shall be substituted.

(d) In the Fifth Schedule, in Part I of paragraph 1, in clause (e), the Explanations shall be deemed never to have been inserted.

Savings

21(1) Notwithstanding any judgment, decree or order of any court or tribunal,

(a) Any action taken, or purported to have been taken, of anything done, or purported to have been done, between the 19th day of July, 1969, and the 10th day of February, 1970, by any corresponding new bank purported to have been constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, or the Banking Companies (Aquisition and Transfer of Undertakings) Act, 1969, or by any person purpor-

ting to act on behalf of such bank and any right, obligation or liability acquired or incurred, between the said dates, by or on behalf of such corresponding new bank shall be deemed to have been taken, done, acquired or incurred under the provisions of this Ordinance by or on behalf of the corresponding new bank constituted thereunder ;

(*b*) Any action taken, or purported to have been taken, or anything done, or purported to have been done, between the 10th day of February, 1970, and the appointed day, by an existing bank or by any person acting on behalf of such bank, and any right, obligation or liability acquired or incurred, between the said dates by or on behalf of such existing bank shall be deemed to have been taken, done, acquired or incurred under the provisions of this Ordinance by or on behalf of the corresponding new bank constituted thereunder.

(2) Any suit, appeal or other proceeding or whatever nature instituted on or after the 19th day of July, 1969, by or against a corresponding new bank purported to have been constituted by the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, shall not abate, be discontinued, or be, in any way, prejudicially affected by reason of the expiry of the said Ordinance or the invalidation of the said Act, as the case may be, but such suit, appeal or other proceeding may be continued, prosecuted and enforced by or against the corresponding new bank as if such suit, appeal or other proceeding had been instituted by or against the corresponding new bank constituted under this Ordinance.

THE SECOND SCHEDULE

Name of existing bank	*Amount of compensation*
	(in lakhs of rupees)
The Central Bank of India Ltd.	1750
The Bank of India Ltd.	1470
The Punjab National Bank Ltd.	1020
The Bank of Baroda Ltd.	840
The United Commercial Bank Ltd.	830
Canara Bank Ltd.	360
United Bank of India Ltd.	420
Dena Bank Ltd.	360
Syndicate Bank Ltd.	360
The Union Bank of India Ltd.	310
Allahabad Bank Ltd.	310
The Indian Bank Ltd.	230
The Bank of Maharashtra Ltd.	230
The Indian Overseas Bank Ltd.	250